Hummingbird

A PLAYER ON THE WORLD STAGE

1999 ANNUAL REPORT

Table of Contents

About This Report

In this era of Web-based communications, we felt it made most sense to produce a true Web-based annual report for 1999. The document you have in your hand contains everything you would expect to read in an annual report and meets all regulatory reporting requirements, but it is not as elaborate as our Web version or the printed annual reports we have produced in previous years. This is a deliberate move to acknowledge the importance to our business of the World Wide Web and, in practical terms, to save money.

We strongly encourage you to tour our Web-based 1999 annual report at www.hummingbird.com/fy99annual/. Not only will it be an easy read, but you will be able to quickly and easily access the latest Hummingbird news, in-depth corporate information and detailed product descriptions to give you the most timely, complete and engaging version of the Hummingbird story.

Corporate Profile

Hummingbird is a leader in the development of enterprise software solutions that provide access to all business-critical information and resources.

For more than ten years, Hummingbird has provided customers with the core technologies they need to deliver corporate information and resources to their enterprise desktops. As computer networks have rapidly evolved to encompass new systems and standards, Hummingbird has continued to set the pace, maintaining its position as a world technology leader by delivering new and enhanced products that answer customer needs. With a diverse product portfolio, Hummingbird offers complete global enterprise solutions from advanced host connectivity, through sophisticated data exchange, query and reporting and analytic applications, to powerful information management at the desktop or on the Web.

The Hummingbird EIP (Enterprise Information Portal) leverages the Company's core strengths in network connectivity, data integration and reporting, and document and knowledge management to connect users to all the business information they need, aggregated and categorized through a single user interface. The Hummingbird EIP is a fully customizable Web-based workspace that provides a single point of access to all business-critical information and resources, including structured and unstructured enterprise data. Beyond access, the Hummingbird EIP works by connecting users to content in context and enabling them to quickly process, filter and act upon information from any enterprise source.

Hummingbird document and knowledge management solutions are used by enterprises worldwide to increase their return on the knowledge they possess. These products provide customers with the access, analysis and control they need to gain new value from the information they possess.

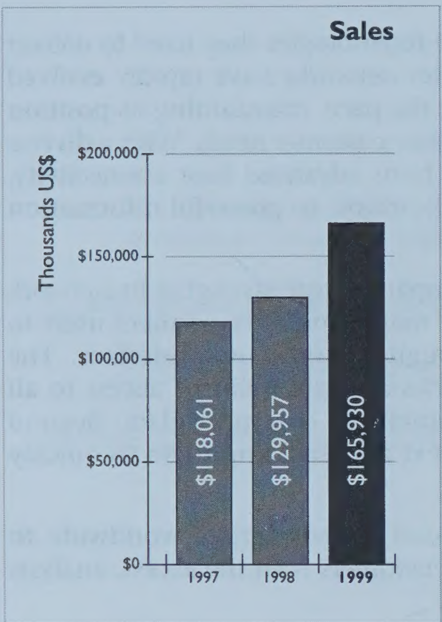
Hummingbird data integration and reporting solutions allow users to access and analyze structured information stored in transactional databases, data marts and data warehouses, both on and off the Web. The complete data integration and reporting product suite includes enterprise querying and reporting, thin-client solutions, data transformation and exchange, analytic applications, professional consulting services and more. Hummingbird data integration and reporting solutions enable organizations to maximize the value of structured data, allowing them to make better-informed business decisions.

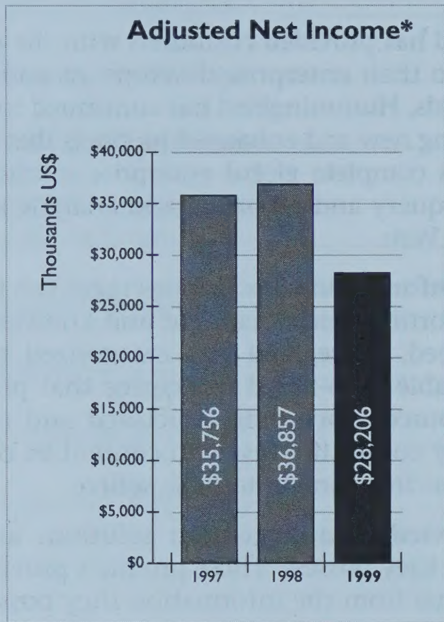
Hummingbird network connectivity solutions feature award-winning high-performance products providing advanced connectivity for all users across a network, allowing easy access to critical enterprise information. With Hummingbird, corporations can source best-of-breed solutions, and are assured that all their desktop-to-enterprise needs are satisfied.

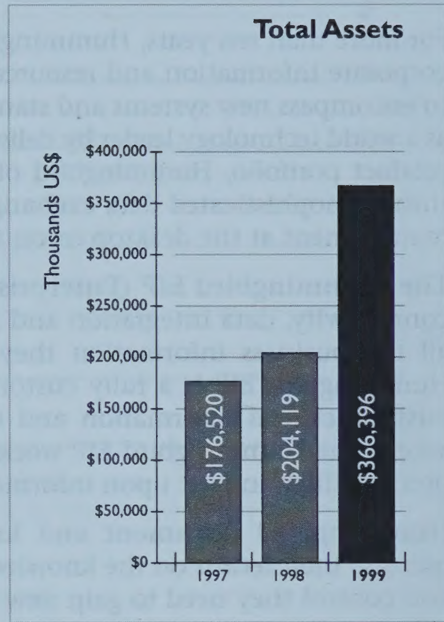
Publicly traded on the Nasdaq ("HUMC") and Toronto Stock Exchange ("HUM") markets, Hummingbird employs over 1,400 people. Headquartered in Toronto, Canada, the Company offers its products, along with related consulting, education and support services, in more than 50 countries around the world.

Financial Highlights

Years ended September 30
(in accordance with U.S. GAAP; thousands of U.S. dollars, except share data)







Summary Table of Financial Data

	1999	1998	1997
Operating Results			
Sales	$ 165,930	$ 129,957	$ 118,061
Adjusted net income*	$ 28,206	$ 36,857	$ 35,756
Adjusted diluted earnings per share*	$ 1.83	$ 2.33	$ 2.29
Financial Position			
Working capital	$ 8,230	$ 152,657	$ 137,484
Shareholders' equity	$ 178,961	$ 181,234	$ 156,603
Total assets	$ 366,396	$ 204,119	$ 176,520
Key Ratios			
Current ratio	1.1	7.7	7.9
Return on sales*	17.0%	28.4%	30.3%

** Excluding the amortization and write-off of intangibles, compensation related to stock options, merger and restructuring charges and gain on sale of investment in subsidiary, net of taxes.*

Chairman's Message

My Fellow Shareholders,

Hummingbird has grown this year to become a true player on the world stage. Over the past 18 months, we have deftly and deliberately extended the reach of this Company beyond our origins as a connectivity software provider to become a diversified, world-leading enterprise solutions vendor.

Today, we are exactly where we need to be:

- We have a diverse technology base attuned to the demands of a knowledge-based economy that thrives on fast, collaborative decision making, lightning-quick competitive responses and continuous innovation.
- We rank among the largest software companies in the world, positioning us to enter into higher-value strategic alliances, prevail in new geographic and vertical markets, and attract broader market attention.
- We have an established record of delivering on commitments, including a promise I made two years ago to take this Company to over US$200 million in revenue by the year 2000, which we are on track to achieve.

Hummingbird is positioned for unprecedented growth, delivering results to shareholders, customers, partners and employees. Month by month, our momentum grows as we establish new synergies among our technologies and sharpen our focus on core businesses and emerging markets.

I can honestly say that the new Hummingbird – with a brand new corporate identity and a new market position – feels like it did 10 years ago when we first entered the connectivity software industry, except that we now have the size, experience, customer base and market savvy to capitalize on even bigger and better opportunities.

Strategy in Action

Fiscal 1999 was a pivotal year in the life of Hummingbird. It was a year in which our core business continued to go from strength to strength. Plus, it was the year that our corporate strategy of accelerating underlying growth through acquisitions moved into high gear.

The story actually began in 1998 when we purchased Andyne Computing. This acquisition was our first step in a planned strategic move to enter the data warehousing business. The Andyne acquisition brought Hummingbird the necessary tools to enter the burgeoning business intelligence market with industry-leading products for accessing and analyzing structured data – that is, information stored in transactional databases, data marts, data warehouses and enterprise resource planning (ERP) applications.

Later the same year, we also acquired the rights to incorporate the source code for ANGOSS Software's data mining products and related components into our product offerings, further strengthening our position in this arena.

These strategic moves were followed by our 1999 purchase of Leonard's Logic SA, makers of Genio, a leading data transformation and exchange tool, and the acquisition of the Financial Frameworks software solution from Context, Inc. Genio provides organizations with consistent, accurate and interrelated information that is centrally administered and easily accessible. Its true value is realized when the data is accessed through Hummingbird's business intelligence tools so that users can access, analyze and report on the information stored.

Financial Frameworks is a software solution specifically designed for risk management applications within the financial services industry. This acquisition enables us to better serve financial services customers and marks our first foray into a targeted vertical market. The Financial Frameworks product allows banks and other financial organizations to build data marts populated with clean, high-quality data derived from their corporate legacy systems quickly and cost-effectively.

The combination of technologies and expertise acquired through this series of purposeful moves creates an unparalleled solution suite of tremendous potential for business intelligence and data mining applications.

In June 1999, we acquired PC DOCS Group International. While business intelligence products focus on structured data, PC DOCS' products search, retrieve, analyze and categorize unstructured data such as word-processing files, spreadsheets, Web pages and electronic mail messages. PC DOCS' award-winning document and knowledge management solutions and sophisticated search engine technology are outstanding additions to our portfolio. The result of this acquisition is an end-to-end product line that provides managed access to business data from any source and in any format, as well as innovative tools to filter and categorize information so that it can be used to true competitive advantage.

By year end, Hummingbird became the first company equipped to provide users with all the business information they need, aggregated and categorized the way they need it, through a single user interface – an Enterprise Information Portal (EIP). The power of the EIP lies in both its functionality and its simplicity from a user's perspective. While various structured and unstructured data streams are being pulled together, clustered and categorized behind the scenes, users simply see relevant information presented in the way they need it to make accurate, informed, timely decisions and promote rapid innovation. The portal has rightfully been called knowledge management's "killer app," and Hummingbird has assembled and built the technology to lead the market. The Delphi Group, the leading independent authority on portal technologies, hailed the introduction of the Hummingbird EIP as "a benchmark product against which many other offerings will be judged."

Financial Successes

As we have worked hard this year to strategically position the Company for accelerated future growth, I am proud to report that we have also stayed focused on continued financial success. In particular, the results from our traditional network connectivity business this year were still very strong, as demonstrated especially in our fourth fiscal quarter, the strongest in our Company's history. This gives us a solid platform as we continue to sell our existing product lines while expanding into new solutions across all target markets and seamlessly integrating all product lines in our drive toward Enterprise Information Portals.

In fiscal 1999, our revenue increased by 28% to $165.9 million from $129.9 million in the previous year. Gross profit also continued to increase, growing to $149.2 million from $123.8 million in fiscal 1998.

Our adjusted net income, excluding one-time charges, was $28.2 million for the year compared to $36.9 million last year. As a result of this, our adjusted diluted earnings per share, based on adjusted net income, were $1.83 compared to $2.33 for the previous year.

These financial results reflect that, while we continued to see strong growth during fiscal 1999, our strategic moves into new markets through acquisitions have required us to invest more heavily to build toward our future success. Moving ahead into the new millennium, we will maintain our fundamental principles of profit emphasis, focus and high-quality customer solutions as we implement our EIP strategy and unveil further additions to our product lines.

Operational Highlights

Fiscal 1999 was a very busy year at Hummingbird, as we hope you have noticed, and there are a number of success stories that deserve special recognition.

New product releases

We continue to introduce a steady stream of new and upgraded technologies in all of our product lines. As always, Hummingbird products are renowned for their quality, technological innovation and response to the needs of enterprise customers. New releases during the year further extended our technological and competitive leadership with advanced new functionality. In 1999 we introduced enhancements to our entire network connectivity product line, releasing version 6.2 of Exceed, Exceed XDK, Exceed 3D, HostExplorer, NFS Maestro Client, NFS Maestro Server, NFS Maestro Solo and NFS Maestro Gateway. We also introduced upgrades to other products such as Genio 3.1, Genio for Solaris, PowerDOCS 3.0 and CyberDOCS 3.0. Each of these products is exceptionally strong by itself, while also offering a compelling advantage when integrated with other Hummingbird technologies within our EIP solution.

Robust network connectivity solutions business

Our network connectivity business is as strong as ever. Hummingbird's worldwide market share of the X server market has grown to more than 67% (Source: International Data Corporation, "1998 PC-X Server Market"; March 1999). The strength of this business demonstrates once again that mainframes, minicomputers and UNIX servers are, and will continue to be, an integral part of companies' information networks. In fact, the strong market momentum of Linux systems is driving greater interest in X server technology than we have experienced in years, as more organizations recognize the need to connect Windows-based desktops to reliable, affordable X server environments. To strengthen our lead in the emerging Linux market, we forged strong alliances with the leading Linux vendors this year, including Red Hat, Caldera and SuSe. We have also started to ship new Linux-based products, including a version of our SearchServer search engine – the first full-featured information retrieval product to be made available for the Linux platform, which we announced in October 1999. We are following up this release in the early months of 2000 by porting the Hummingbird EIP and other products to support Linux.

Also in 1999, we introduced an innovative licensing approach to provide complete enterprise connectivity. Hummingbird Enterprise Now! provides organizations with a complete connectivity solution that includes a single, flexible enterprise license and a full range of professional services. Using a single enterprise license, organizations can choose and deploy any combination of Hummingbird connectivity products, including Web-to-Host, Thin X, Terminal Emulation, PC X and NFS solutions, to ease migration from fat-client to thin-client connectivity and meet unique business needs.

Strong, growing customer base

We added many new customers this year and have seen market growth in each of our main areas of business, both in North America and increasingly in international markets, with many new customers in Europe and Asia in particular.

Our Strategic Focus: The EIP

Hummingbird's transition time is over. We have stayed true to our fundamental business principles throughout this year of rapid growth and change – delivering on commitments to our stakeholders without ever losing sight of the bottom line. By the end of the calendar year, we had completed substantially all integration work to bring acquired technologies and talents together into a new, stronger Hummingbird. The culmination of our intensive efforts this year was the launch of our new Hummingbird EIP solution – the engine that will drive our long-term growth.

As many industry observers have cited, there is increasing market demand for integrated information management solutions that make it possible for users to work with all sources and forms of enterprise information through a single user interface. More and more organizations recognize that their ability to draw on and leverage the vast stores of information available to them quickly and easily translates into a distinct competitive advantage. The Enterprise Information Portal offers just the solution. It is a familiar, customizable, navigable Web interface that aggregates and automatically categorizes content from all data sources so that knowledge, decisions and actions come faster and easier.

The total market opportunity for enterprise information portals is estimated to reach $14 billion by 2002 (Source: Merrill Lynch, "Enterprise Information Portals"; November 1998). Immediate high-gain potential is seen in customer relationship management, knowledge flow management, risk management and e-business applications, where rapid access to accurate, contextual information is essential to manage 21st-century business challenges.

Hummingbird is the first company to have assembled all of the technology needed to provide a true EIP solution. In our 15-year history, we have become experts in technologies that access, capture, index, find, retrieve, store, archive and secure information in any format, in any language and at any location. Through the EIP, we are able to add context to the information with technologies that analyze, categorize, cluster, personalize and model data, among other things, so that it can be put to good use. Yet despite the underlying complexity and abundant functionality of the Hummingbird EIP, the user need only deal with a simple, familiar Web page to benefit from the EIP's tremendous capabilities.

No other vendor is positioned to offer as complete and as functional an EIP solution as Hummingbird. Nor is any competitor enterprise-ready in the way that we are – our connectivity experience serving the largest organizations in the world has prepared us well to handle the largest, most demanding enterprise implementations.

Our strategy for bringing the EIP to market is to continue selling existing product lines at corporate and departmental levels. As customer needs grow, Hummingbird's portal technologies can be seamlessly integrated piece by piece and department by department. Once again, our years of experience in introducing new, complementary technologies to our strong client base give us a clear advantage as enterprise customers increasingly appreciate the relevance and potential of the EIP.

Year 2000 Outlook

One of the Company's first priorities for fiscal year 2000 has been to continue on the path we began in late 1999 of streamlining operations and reducing the debt assumed in the acquisition of PC DOCS. In the first quarter, we completed the divestiture of two non-core businesses – CMS/Data and Datenrevision, generating approximately $42 million. We have completed the integration of our finance and research and development, and are in the process of integrating sales and other operations to achieve the greatest possible cost synergies. And we have applied Hummingbird's traditional operating discipline across the Company so that we can reinforce our strong cost-conscious culture in all areas of this growing business. With the proceeds of our new common stock offering, initiated late in calendar 1999, we are in a position to enter this new millennium with a clear path to becoming completely debt-free once more, by the end of our second fiscal quarter.

We are most excited about continuing to evolve our EIP strategy early in the new year. Not only is the EIP expected to fuel growth and enhance long-term shareholder value, but it will also be an important test of the complementary nature of our technologies and of our ability to integrate them. We are confident that our customers, partners, shareholders and employees will be well pleased with the result.

Beyond these two priorities, Hummingbird is committed to achieving record sales and substantial earnings levels, moving ahead with new product plans, including releases from each of our product lines and new synergies that cut across businesses, and establishing strategic alliances that extend the functionality and reach of our products and strengthen the Company's position in key markets. We are also preparing to implement new sales and marketing approaches that foster increased cross-selling to customers and emphasize our expertise in the industry. We have planned our marketing cycles to be well positioned for the second half of the fiscal year as companies emerge from their Y2K experiences and healthy information technology budgets can be focused on new strategic initiatives.

Hummingbird is committed to continued aggressive growth, both organically and through ongoing acquisitions where appropriate. Given our track record, our technological edge and the proven quality and commitment of our people, we are confident we will continue to see strong growth in the years ahead.

As the new Hummingbird steps up to take its place on a millennial world stage, I'd like to extend our special thanks to all stakeholders who have contributed toward our growth to date. In particular, the employees of Hummingbird worldwide have demonstrated outstanding dedication to our Company through this year of extraordinary change. Their determined support of our goals and valuable input throughout 1999 have helped to position us for unprecedented growth in the 21st century.

Fred Sorkin
Chairman & Chief Executive Officer

Hummingbird Markets

Hummingbird develops and markets leading software products across a diverse marketplace. With an overall market potential for Hummingbird products totaling approximately US$20 billion, Hummingbird is an important contender in the new enterprise information portals market, document and knowledge management markets, the data integration and reporting market and network connectivity markets.

Enterprise Information Portals Market

The enterprise information portals (EIP) market is relatively young. In November 1998, Merrill Lynch defined the market in their "Enterprise Information Portals" report, where they defined an EIP as an application to "enable companies to unlock internally and externally stored information, and provide users a single gateway to personalized information needed to make informed business decisions."

According to Merrill Lynch, the EIP market was estimated to be $4.4 billion in calendar year 1999, growing to $14.8 billion by 2002. The EIP market is emerging from a consolidation of the following markets:

- Business intelligence
- Knowledge management
- Document management
- Content management
- Collaboration

The market for EIP solutions is driven by the fact that all organizations are challenged to become more nimble and responsive in order to thrive in this dynamic world. Enterprises are under immense pressure to rise to the new challenges and opportunities of today's Internet-paced economy. With vast information sources to manage, higher customer expectations and shifting work teams, individual employees need access to relevant, personalized content – in the appropriate context – to make fast, accurate and informed decisions.

Our commitment to the EIP marketplace is demonstrated in the fact that all of Hummingbird's products are fully integrated into our EIP strategy. Our offering has the ability to incorporate connectivity, data integration, reporting, document management and knowledge management capabilities, as well as an open metadata strategy and published XML-based APIs for integrating additional applications to the EIP environment, providing access to all business-critical information and resources, including structured and unstructured enterprise data.

In the early days following the launch of the Hummingbird EIP, the market reaction has already been very positive. In a NewsFlash issued on December 7, 1999, the Delphi Group, a leading independent authority on portal technologies, praised both the Hummingbird EIP and the Company's intention to release vertical solutions built on the core enterprise information portal. The Delphi Group NewsFlash stated: "The release gives Hummingbird a benchmark product against which many other offerings will be judged."

Document and Knowledge Management Markets

Eighty percent of an organization's electronic information is unstructured data found in documents, e-mail messages, Web content and graphics files. The business challenge is to manage this information, put it in context and extract useful knowledge from it.

Document management products enable customers in a broad range of industries to leverage the intellectual assets and expertise within their organizations by managing business-critical documents in an efficient and cost-effective manner. Knowledge management is the process of capturing a company's collective expertise, wherever it resides – in databases, on paper or in people's heads – and distributing it wherever it produces the biggest payback. The most advanced knowledge management products fuse document management, sophisticated information retrieval and cutting-edge content analysis tools in order to leverage the collective knowledge and experience of an organization to accelerate innovation and sharpen competitive edge.

The document and knowledge management market is expected to grow at rates in excess of 35% over the next four years (Source: International Data Corporation, "Document Management Market Review & Forecast: 1998–2003"; July 1999). This growth is being fueled by a number of factors, including the Internet explosion – never before has so much information been so readily available to so many people. Organizations are looking for ways to transform this high volume of information into knowledge that they can use for competitive advantage. In addition, as business becomes increasingly globalized, people must have access to the latest information and knowledge bases from around the world at their fingertips at any time. Finally, given the dynamic nature of today's workforce, with people changing jobs more frequently than ever before, successful organizations want to ensure that they retain valuable information and know-how through proactive management of their information.

The acquisition of PC DOCS gives us the leading position in the market for document and knowledge management solutions. We offer a strong foundation for managing information today, and a clear vision that parallels our customers' needs. Our document and knowledge management products directly address the driving factors behind the growth of this market. Our products support Internet-based operation, and work with information available from a broad variety of different environments, including Web content. In addition, these products are now available in 20 different languages, far exceeding the capabilities of any other vendor. We believe that as businesses become more global, software solutions such as document and knowledge management must be able to support users in their native language – with consistent access to the same core functions, regardless of the individual's local point of origin.

Today, more than 5,000 organizations worldwide use our document and knowledge management software to manage their intellectual assets, making these products important competitors in this changing market.

Data Integration and Reporting Market

Today, in order to remain competitive, companies must leverage and utilize their investments in data. Data integration and reporting technologies address this issue, encompassing three main areas: data warehousing (framing and unifying multiple data sources in a coherent information repository); data exchange (transforming and exchanging information between disparate enterprise applications to achieve consistency between operational systems); and query and reporting to empower knowledge workers for better-informed business decisions. Hummingbird's data integration and reporting software products compete in the data exchange market; the querying and reporting market; the multidimensional analysis/OLAP market; the emerging data mining market; and the market for integrated products for querying, reporting and analysis.

Demand for data integration and reporting technologies has surged in recent times, driven by the general business climate for increased competition. Companies in nearly every industry are looking to improve their time to market, customer services and operational processes by more effectively and quickly utilizing the vast amounts of data they have acquired and in which they have invested. In essence, data integration and reporting software allows companies to transform structured information from line-of-business systems into knowledge, enabling fast and informed business decisions at any organizational level.

An important trend in the data integration and reporting market is the emerging importance of centralized metadata repositories. With the proliferation of different enterprise applications and decision support systems in many organizations, users are often faced with the need to interpret and navigate multiple metadata definitions in order to arrive at a consolidated view of available information. Hummingbird's Genio product offerings address this need, supporting the varied information search and analytical needs of corporate information consumers by providing access to all information from multiple decision support systems through a single, consistent view of metadata.

Hummingbird Genio Suite is a data exchange solution that transforms, cleanses, enriches and directs information across the entire spectrum of decision support systems and enterprise applications. Genio's hub-and-spoke architecture addresses simple and complex data exchange processes within a procedure-driven graphical environment. Genio automates many data exchange tasks that normally require tedious programming, allowing IT professionals to rapidly develop data transformation routines for an immediate return on investment. Genio Suite consists of an integrated suite of components that allows organizations to design, deploy and maintain data transformation and exchange processes with great ease. Increasingly, corporations around the world are embracing data integration and reporting solutions to analyze and report on their data quickly and easily.

Network Connectivity Markets

PC X server technology and Thin X connectivity are key components of the enterprise networking model, with thousands of desktop users connecting to business-critical applications every day via TCP/IP and PC X server software. PC X server software is the established technology and the Thin X solution is an emerging market. Both enable PC users to obtain access to X applications on a network in a familiar Windows or Web-based interface. With the proliferation of more powerful personal computers, PC X server and Thin X software deliver higher performance at significantly lower cost. Hummingbird is the long-time leader in the PC X server market, according to industry analysts, with Exceed having over 67% of the worldwide market share based on revenue, four times the market share of its closest competitor.

The Network File System (NFS) is an industry standard and a key component for network interoperability, ensuring heterogeneous components in a network can "understand" files in the same way. It is a well-defined protocol for transparently accessing files between disparate operating systems. Since its introduction in 1984, NFS has become the standard for distributed interoperable print and file services in a mixed computing environment. The NFS market is followed by analysts as a component of TCP/IP applications suites, which are internetworking productivity packages sold with NFS software and other networking applications. The market is not regularly followed as a stand-alone market. However, according to industry analysts, the NFS market will experience moderate growth over the next few years as it is the predominant utility used to transfer files between the growing installed base of TCP/IP systems. According to industry technology reviewers, Hummingbird NFS Maestro is regarded as the highest-performance and best value NFS solution available.

In the market for host access via desktop-to-mainframe connectivity and Web-to-Host access, standards such as TN3270E, TN5250E and VT emulation provide network-based users access to applications and information residing on enterprise hosts, which are critical components of back office systems, holding a majority of an enterprise's data. The ongoing growth in the mainframe terminal emulation market has been fueled by the widespread use of standards-based networking protocols, such as TCP/IP, and the growth in the IBM host-based market. According to industry analysts, the TN3270 market segment is expected to increase from a worldwide installed base of 14.5 million users in 1997 to 26.4 million users in 2000.

As corporate computing environments rapidly evolve, the effective distribution of information remains fundamental to business success. Mainframes, midranges, UNIX, Linux and other business-critical information systems continue to hold important information for most companies. While information access was previously limited to users with protocol-specific terminals and dedicated connections, it is now easily available to everyone within a corporation with Hummingbird's network connectivity solutions. The requirement for traditional or thin-client connectivity varies depending on a corporation's needs and individual user requirements. Choosing a single technology isn't necessary with the introduction of Hummingbird's new "Enterprise Now!" program.

With Enterprise Now!, Hummingbird network connectivity products are mixed and matched with a single enterprise client license, simplifying connectivity software acquisition and deployment. Using a single enterprise client license, organizations can choose any combination of Hummingbird connectivity products, including Web-to-Host, Thin X, Terminal Emulation, PC X and NFS solutions, to ease migration from traditional to thin-client connectivity solutions – now, and in the future.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Years Ended September 30, 1999 and 1998

Forward-Looking Statements

The following discussion contains forward-looking statements that are subject to significant risks and uncertainties. A number of important factors could cause actual results to differ materially from historical results and percentages and results anticipated by the forward-looking statements contained in the following discussion. Such factors and risks include, but are not limited to, intense competition and rapid change in the application and enterprise software industry, including price and product feature competition; the introduction of new products by existing or new competitors; the economic environment; dependence on distributors and the emergence of new distribution channels; the timing and customer acceptance of new or upgraded products; and the ability to develop, market, support and acquire new products in an environment of rapidly changing technology. Readers should carefully review the risks described herein and in the other documents Hummingbird Communications Ltd. ("Hummingbird" or the "Company") files from time to time with the United States Securities and Exchange Commission and the Ontario Securities Commission.

Overview

The following discussion should be read in conjunction with the audited consolidated financial statements and notes included in this Annual Report to Shareholders. The Company reports its consolidated financial statements and Management's Discussion and Analysis in U.S. dollars and in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements and MD&A in accordance with Canadian GAAP, in U.S. dollars, are also contained within this report.

The Company develops, manufactures and markets enterprise information portal (EIP) solutions; document and knowledge management solutions dealing with unstructured data; data integration and reporting solutions dealing with structured data; and enterprise network connectivity solutions. During the fiscal year, the Company repositioned itself as an Enterprise Software and Solutions Company. Consistent with its strategy to develop true enterprise information portals, the Company has made a number of acquisitions and divestitures during fiscal 1999.

On March 5, 1999, the Company announced an agreement to acquire PC DOCS Group International Inc. This acquisition was completed on June 23, 1999 for cash consideration of $192 million and enables the Company to combine the expertise of managing unstructured data with its existing offerings of network connectivity and business intelligence tools.

On March 11, 1999, the Company announced the acquisition of Leonard's Logic SA for a cash consideration of $20.4 million. This acquisition enables the Company to offer a turnkey solution for rapid and cost-effective deployment of data marts.

Effective September 1, 1999, the Company sold Datenrevision GmbH, a wholly-owned subsidiary of the Company, and effective September 30, 1999, the Company sold CMS/Data Corporation, a subsidiary of PC DOCS Group International Inc. These divestitures were in line with the Company's strategy to focus on core business areas and the EIP market.

Financial Condition and Results of Operations in Accordance with U.S. GAAP

Fiscal years ended September 30 (thousands of U.S. dollars)	1999	1998
Sales	$ 165,930	$ 129,957
Cost of sales	16,759	6,148
Gross profit	149,171	123,809
Expenses		
Sales and marketing	65,779	40,449
Research and development	22,546	14,929
General and administration	16,178	9,601
Merger and restructuring	8,750	5,715
Compensation related to stock options	141	723
Amortization of intangibles	13,014	3,507
Write-off of intangibles	15,839	1,498
Total expenses	142,247	76,422
Income before the undernoted	6,924	47,387
Other income, net	4,455	6,870
Gain on sale of investment in subsidiary	5,204	–
Income before taxes	16,583	54,257
Income taxes	16,304	27,658
Net income	$ 279	$ 26,599

Sales

Sales increased to $165.9 million from $130.0 million in fiscal 1998. Increased revenues are primarily attributed to the acquisition during the year of Leonard's Logic SA and PC DOCS Group International Inc.

The Company generates revenues through the sales of software products and licenses, provision of related software support including upgrades and technical support under annual maintenance fees, provision of professional training and consulting services, project management and software installation. The Company's products are marketed and sold directly through a strong corporate sales force complemented by a dedicated worldwide network of resellers. The geographical breakdown of sales is 53% from the United States, 4% from Canada, 38% from Europe and 5% from the rest of the world compared to 58%, 4%, 34% and 4% respectively in fiscal 1998.

Cost of Sales

Cost of sales consists of royalties payable to companies whose software is bundled in the Company's products, product media and duplication, manuals, packaging, and personnel and incidental costs related to the provision of professional training and consulting services. The cost of sales increased to $16.8 million in fiscal 1999 from $6.1 million in fiscal 1998 as a result of the increased size of operations stemming from the provision of professional services.

Sales and Marketing Expenses

Sales and marketing expenses consist of personnel costs, facilities costs and marketing activities in the form of advertising, promotions and trade shows. Sales and marketing expenses increased by 63% to $65.8 million from $40.4 million in fiscal 1998. As a percentage of revenues, the sales and marketing expenses were 40% compared to 31% in fiscal 1998. This can be attributed to an overall increase in the size of operations as a result of acquisitions, increased efforts with the sales force in existing business lines and increased marketing spending to address new markets.

Research and Development Expenses

Research and development expenses consist of personnel and equipment costs required to develop and support the Company's product as an integrated whole. In addition, it includes facilities costs and licensing fees for technology used in the development effort. The Company expenses all research costs as they are incurred. Development costs are only capitalized if they meet the strict criteria set out by generally accepted accounting principles. Accordingly, no development costs were capitalized during the fiscal year. Research and development costs increased by 51% to $22.5 million and were 14% of revenues during the fiscal year compared to $14.9 million and 11% of revenues in fiscal 1998. The Company believes that research and development costs will continue to rise in the future in response to a wider product offering supporting a broader customer base.

General and Administration Expenses

General and administration expenses consist primarily of personnel costs and overhead expenses. In order to support a larger organization, the general and administration expenses increased by 69% from $9.6 million in fiscal 1998 to $16.2 million in fiscal 1999. As a percentage of revenues, the general and administration costs were 10% compared to 7% in fiscal 1998.

Restructuring Expenses

An amount of $8.8 million was charged to income in the third quarter of fiscal 1999. It relates to restructuring charges, such as employment severances, costs for redundant assets and facilities and reorganization costs as a result of the integration of PC DOCS Group International Inc., and the refocusing of the business strategy of the Company.

Compensation Related to Stock Options

This amount represents compensation expense charged to income, in accordance with APB Opinion 25, which arises when stock options are granted at below market prices. The difference between the grant and market price is amortized over the vesting period, which is three years.

Amortization of Intangibles

This amount consists of amortization of the goodwill and other intangibles acquired from 1995 to 1999. These amounts are being amortized over periods ranging from three to ten years. The amortization of intangibles for fiscal 1999 amounted to $13.0 million compared to $3.5 million for fiscal 1998. A significant portion of the increase in amortization relates to the PC DOCS acquisition late in the year.

Write-off of Intangibles
This item consists of write-offs of goodwill, in-process research and development and other intangibles. The Company regularly reviews the carrying value of its intangibles based on the expected future operating income to determine recoverability of the assets, and when necessary, an adjustment is made to the carrying value.

Other Income, Net
This is the net impact of interest income, foreign exchange gains and losses and interest expense on long-term debt as a result of the PC DOCS acquisition. Net other income for fiscal 1999 amounted to $4.5 million compared to $6.8 million for fiscal 1998.

Gain on Sale of Investment in Subsidiary
As part of its overall redefinition of corporate strategy, the Company divested its German subsidiary, Datenrevision. A gain of $5.2 million on the sale of its German subsidiary was realized.

Income Taxes
The Company's estimated effective income tax rate for fiscal 1999 is 98% compared to 51% for fiscal 1998. This is primarily due to the non-deductibility of the amortization and write-off of intangibles offset by foreign rate differences.

Net Income
The Company's net income for the year decreased to $0.3 million compared to $26.6 million in fiscal 1998.

Liquidity and Capital Resources
During the year, the Company used $172.6 million in the acquisition of companies, net of divestitures. This was enabled by a reduction in short-term investments of $110.3 million and an increase in debt and long-term debt of $66 million. The Company generated $7.1 million of cash flow from operating activities compared to $31.4 million in fiscal 1998. Capital expenditures during the year amounted to $3.7 million, which primarily consisted of additions to buildings, procurement of computer hardware and software, and fixed assets such as leasehold improvements, furniture and office equipment. Proceeds from the sale of subsidiaries were used to reduce long-term debt.

The intangibles relating to various acquisitions amount to $210.4 million at the end of fiscal 1999 compared to $12.4 million at the end of fiscal 1998. Different components are to be amortized over periods ranging from three to ten years.

Effects of Inflation
To date, the Company's operations have not experienced any significant effects of inflation. However, there are no assurances that inflation will not have any material effect on the Company's operations in the future.

Financial Condition and Results of Operations in Accordance with Canadian GAAP

Fiscal years ended September 30 (thousands of U.S. dollars)	1999	1998
Sales	$ 165,930	$ 126,053
Cost of sales	16,759	5,662
Gross profit	149,171	120,391
Expenses		
Sales and marketing	65,779	37,121
Research and development	22,546	13,550
General and administration	16,178	9,048
Restructuring	8,750	1,352
Amortization of intangibles	23,351	12,909
Write-off of intangibles	1,819	4,330
Total expenses	138,423	78,310
Income before the undernoted	10,748	42,081
Other income, net	4,455	6,798
Gain on sale of investment in subsidiary	5,204	–
Income before taxes	20,407	48,879
Income taxes	16,105	27,929
Net income	$ 4,302	$ 20,950

Sales
Sales increased to $165.9 million from $126.1 million in fiscal 1998. Increased revenues are primarily attributed to the acquisition during the year of Leonard's Logic SA and PC DOCS Group International Inc.

The Company generates revenues through the sales of software products and licenses, provision of related software support including upgrades and technical support under annual maintenance fees, provision of professional training and consulting services, project management and software installation. The Company's products are marketed and sold directly through a strong corporate sales force complemented by a dedicated worldwide network of resellers. The geographical breakdown of sales is 53% from the United States, 4% from Canada, 38% from Europe and 5% from the rest of the world compared to 58%, 4%, 34% and 4% respectively in fiscal 1998.

Cost of Sales
Cost of sales consists of royalties payable to companies whose software is bundled in the Company's products, product media and duplication, manuals, packaging, and personnel and incidental costs related to the provision of professional training and consulting services. The cost of sales increased to $16.8 million in fiscal 1999 from $5.7 million in fiscal 1998 as a result of the increased size of operations stemming from the provision of professional services.

Sales and Marketing Expenses
Sales and marketing expenses consist of personnel costs, facilities costs and marketing activities in the form of advertising, promotions and trade shows. Sales and marketing expenses increased by 77% to $65.8 million from $37.1 million in fiscal 1998. As a percentage of revenues, the sales and marketing expenses were 40% compared to 29% in fiscal 1998. This can be attributed to an overall increase in the size of operations as a result of acquisitions, increased efforts with the sales force in existing business lines and increased marketing spending to address new markets.

Research and Development Expenses
Research and development expenses consist of personnel and equipment costs required to develop and support the Company's product as an integrated whole. In addition, it includes facilities costs and licensing fees for technology used in the development effort. The Company expenses all research costs as they are incurred. Development costs are only capitalized if they meet the strict criteria set out by generally accepted accounting

principles. Accordingly, no development costs were capitalized during the fiscal year. Research and development costs increased by 66% to $22.5 million and were 14% of revenues during the fiscal year compared to $13.6 million and 11% of revenues in fiscal 1998. The Company believes that research and development costs will continue to rise in the future in response to a wider product offering supporting a broader customer base.

General and Administration Expenses

General and administration expenses consist primarily of personnel costs and overhead expenses. In order to support a larger organization, the general and administration expenses increased by 79% from $9 million in fiscal 1998 to $16.2 million in fiscal 1999. As a percentage of revenues, the general and administration costs were 10% compared to 7% in fiscal 1998.

Restructuring Expenses

An amount of $8.8 million was charged to income in the third quarter of fiscal 1999. It relates to restructuring charges, such as employment severances, costs for redundant assets and facilities and reorganization costs as a result of the integration of PC DOCS Group International Inc., and the refocusing of the business strategy of the Company.

Amortization of Intangibles

This amount consists of amortization of the goodwill and other intangibles acquired from 1995 to 1999. These amounts are being amortized over periods ranging from three to ten years. The amortization of intangibles for fiscal 1999 amounted to $23.4 million compared to $12.9 million for fiscal 1998. A significant portion of the increase in amortization relates to the PC DOCS acquisition late in the year.

Write-off of Intangibles

This item consists of write-offs of goodwill and other intangibles. The Company regularly reviews the carrying value of its intangibles based on the expected future operating income to determine recoverability of the assets, and when necessary, an adjustment is made to the carrying value.

Other Income, Net

This is the net impact of interest income, foreign exchange gains and losses and interest expense on long-term debt as a result of the PC DOCS acquisition. Net other income for fiscal 1999 amounted to $4.5 million compared to $6.8 million for fiscal 1998.

Gain on Sale of Investment in Subsidiary

As part of its overall redefinition of corporate strategy, the Company divested its German subsidiary, Datenrevision. A gain of $5.2 million on the sale of its German subsidiary was realized.

Income Taxes

The Company's estimated effective income tax rate for fiscal 1999 is 79% compared to 57% for fiscal 1998. This is primarily due to the non-deductibility of the amortization and write-off of intangibles offset by foreign rate differences.

Net Income

The Company's net income for the year decreased to $4.3 million compared to $21 million in fiscal 1998.

Liquidity and Capital Resources

During the year, the Company used $172.6 million in the acquisition of companies, net of divestitures. This was enabled by a reduction in short-term investments of $110.3 million and an increase in debt and long-term debt of $66 million. The Company generated $7.1 million of cash flow from operating activities compared to $34.2 million in fiscal 1998. Capital expenditures during the year amounted to $3.7 million, which primarily consisted of additions to buildings, procurement of computer hardware and software, and fixed assets such as leasehold improvements, furniture and office equipment. Proceeds from the sale of subsidiaries were used to reduce long-term debt.

The intangibles relating to various acquisitions amount to $208 million at the end of fiscal 1999 compared to $54.8 million at the end of fiscal 1998. Different components are to be amortized over periods ranging from three to ten years.

Effects of Inflation

To date, the Company's operations have not experienced any significant effects of inflation. However, there are no assurances that inflation will not have any material effect on the Company's operations in the future.

Business Strategy

The Company's principal business strategy is to maintain technological leadership in each of its current markets by continued investment in research and development; to extend its international sales and support capability, both directly and through business partnerships; to expand its strategic relationships with the leading developers of complementary software and hardware; and to increase its penetration of selected markets.

The Company focuses its research and development resources on the advancement of enterprise software technology in the areas of enterprise information portals, document and knowledge management, data integration, reporting and analytic applications, and network connectivity. The Company's long-standing leadership in the network connectivity market and strategic acquisitions in other areas have allowed the Company to grow a large and diverse global customer base, facilitating growth in all areas of the Company's business.

The Company continues to innovate and enhance discrete product offerings in each of its current technology areas to meet customer needs. In addition, the Company has recognized increasing market demand for fully integrated information management solutions that work with all sources and forms of enterprise information through a single user interface. Effective management of information will be an increasingly important competitive factor in the success of business enterprises in the future. This will require organizations to implement a cohesive approach to information management, which addresses all forms of structured and unstructured data.

"Structured" data is defined as information organized in databases with clearly defined fields, columns and rows. Examples of structured data include sales records, accounting records, customer profiles, transaction records, bills of materials, marketing databases and inventory records. "Unstructured" data is defined as business-critical information stored in word-processing documents, spreadsheets, presentation graphics, Internet/intranet pages, CAD drawings, multimedia audio/video clips, electronic mail messages and electronic facsimile documents.

Following the acquisition of Andyne Computing Limited in fiscal 1998, the Company had already extended its expertise and competitive standing in the access, management and analysis of structured data through data warehousing and business intelligence technologies. In fiscal 1999, the Company enhanced its presence in this area through the acquisition of Leonard's Logic, bringing the sophisticated Genio data transformation and integration products into the Company's portfolio.

During fiscal 1999, the Company acquired PC DOCS Group International Inc. ("PC DOCS"), an established leader in the field of unstructured data management. The Company considers PC DOCS' software products for the document and knowledge management markets to be technologically superior to competing solutions in its industry, and believes that the combination of the two companies has already afforded an expanding sales and marketing channel for the products of both companies. The integration of both structured and unstructured data management capabilities within a single product portfolio is now the Company's most significant competitive differentiation.

The acquisitions of Andyne, PC DOCS and Leonard's Logic have allowed the Company to respond quickly to the growing need for integrated information management solutions, entering the new and rapidly growing market for enterprise information portals with a combined product offering that integrates elements from each of the Company's existing lines through a newly developed software core.

In addition, the Company continues to research and monitor new markets that provide for high potential levels of growth, and further acquisition opportunities that may enhance its technology offering, professional services capability and overall competitive standing in its markets.

Outlook

Management believes that success in the highly competitive software industry depends largely upon a thorough understanding of several material factors. These factors include technological change, competition and distribution strategy.

Technological Change

The Company considers its early success and the continuance of its leadership position to be a result of its strong technology expertise and the ongoing delivery of advanced solutions that meet diverse customer requirements. The Company develops products that provide features and support options that are either unavailable in competing products, or that exist to a lesser degree in comparable solutions. The Company's products are designed to provide the highest possible performance, reliability and the most complete integration across all popular enterprise networks.

The Company's overall technology strategy is driven by research into the evolving enterprise computing needs of its customers, especially Fortune 1000 multinational organizations and large government agencies. The Company has a proven track record of successfully developing and acquiring products and technologies that these customers require – as evidenced by the fact that several of the new technologies introduced by the Company into the marketplace over time have gone on to become recognized as de facto industry standards in their areas. The Company continues to maintain close relationships with its enterprise customers at every level of the Company, in order to stay attuned to market demands and keep ahead of competitive offerings.

The Company's products have historically been regarded as leaders in their markets, providing users with increased productivity and cost savings across the enterprise. This reputation for quality and leading-edge solutions has afforded the Company early acceptance in its entry into new markets, including the business intelligence, and document and knowledge management markets. The Company has become recognized as both a leader and an innovator in its areas of traditional expertise – a factor that has strengthened and accelerated the Company's diversification into new business areas.

The Company is established as a major contender in the network connectivity market, having first established leadership in the PC X server marketplace before diversifying into broader areas of enterprise connectivity. The strength of this business continues to demonstrate that mainframes, minicomputers and UNIX servers are, and will continue to be, an integral part of companies' global information networks. The Company's products in this area include the Exceed PC X server line, the NFS Maestro Network File System line and the HostExplorer mainframe connectivity line.

During fiscal 1999, the Company introduced JuMP, a Java-based thin-client management platform that enables enterprise-wide management of its thin clients for mainframe, midrange and UNIX/X Window system connectivity. This object-oriented, open standards-based solution is now the core architecture of the Company's thin-client connectivity solutions.

A number of integrated solutions were launched during the year on the platform provided by JuMP, including HostExplorer Web and Exceed Web, centrally managed, Java-based solutions for Web-to-Host terminal emulation and browser-based access to X Window applications.

The Company also delivered upgrades during the year to its entire suite of network connectivity products: Exceed, Exceed XDK, Exceed 3D, HostExplorer, NFS Maestro Client, NFS Maestro Server, NFS Maestro Solo and NFS Maestro Gateway. The Company also launched an umbrella marketing program, Enterprise Now!, that encompasses all of the Company's connectivity products under a unified licensing scheme. This positions Hummingbird as a single source connectivity vendor with a licensing model designed to leverage the migratory nature of the connectivity market.

Expanding the scope of its product offerings in the area of data integration and reporting, the Company built on the acquisition of Leonard's Logic during fiscal 1999 to launch Genio 3.1 in the fourth quarter, as well as Genio support for Solaris and other UNIX platforms. Genio is a leading data transformation and exchange tool that provides organizations with consistent, accurate and interrelated information that is centrally administered and easily accessible. Its value is further enhanced when the data is accessed through the Company's business intelligence tools, so that users can access, analyze and report on the information stored.

Management believes that the combination of Genio and other products in the Company's data integration and reporting line add up to a complete suite of tools for building data warehouses and data marts, performing integration between operational systems, and providing query and reporting functionality to empower knowledge workers for better-informed business decisions.

During fiscal 1999, the Company also introduced new product releases in the area of document and knowledge management following the acquisition of PC DOCS. New releases such as DOCSFulcrum 3.0, DOCSFusion 3.0, PowerDOCS 3.0, CyberDOCS 3.0 and DOCS RM further extend the Company's technological and competitive leadership in the area of document and knowledge management with advanced new functionality. These products enable customers in a broad range of industries to leverage the intellectual assets and expertise within their organizations by managing business-critical documents in an efficient and cost-effective manner.

The open architecture of the Company's document and knowledge management products enables their deployment in a standardized fashion, permits sophisticated customization and extensions, and facilitates scalability across an enterprise.

The Company's most significant strategic technological advance in fiscal 1999 was the announcement and subsequent launch, in the first quarter of fiscal 2000, of its innovative new Enterprise Information Portal (EIP) solution. The power of the Hummingbird EIP lies in both its functionality and simplicity from a user's perspective, and in its manageability from the MIS department's perspective.

Through the simple browser-based user interface of the EIP, various structured and unstructured data streams are pulled together, clustered and categorized in order to present users with a coherent view of all relevant information available to them from a variety of internal and external sources. At the same time, the Company has drawn on its depth of experience in enterprise-wide deployments to ensure that the EIP system is robust, scalable and manageable – meeting the needs of the most demanding enterprise CIOs. Market analysts have already hailed the Company's EIP solution as the technological benchmark by which other competing products will be judged.

Competition

The market for the Company's products is intensely competitive and significantly affected by new product introductions and other market activities of industry participants. The Company believes that the principal competitive factors affecting its market include ease of use, functionality, product architecture, price, product quality and innovation, customer support, scope and effectiveness of sales distribution and marketing efforts, and overall market perception/reputation.

The Company competes in the network connectivity market (including PC X server, TCP/IP, NFS and mainframe connectivity software), the data integration and reporting market (including business intelligence and data transformation software), the document and knowledge management market, the analytic applications market and the enterprise information portals market.

The Company's assessment of its competitors' product and services offerings is based on its knowledge of the software industry, as derived from market intelligence, public announcements and demonstrations, trade shows and publications, promotional and technical literature and industry analysts' reports.

In the area of network connectivity, the Company has dominated the PC X server market since 1993 and, for the calendar year 1998, according to the leading industry analyst report, commanded approximately 67% of the worldwide market share. The Company's market share in this area is approximately four-and-one-half times that of its nearest competitor. Management believes that the Company's "ownership" hold on this market will continue to grow and strengthen over the next two years as other market players continue to lose market share.

The Company's principal competitors in the PC X server market and other areas of network connectivity include Walker Richer Quinn, Inc., NetManage, Inc., Attachmate Corporation, Intergraph Corporation and Sun Microsystems, Inc. To a lesser degree the Company experiences competition from The Santa Cruz Operation, Inc., Novell, Inc. and Microsoft Corporation. Some of the Company's competitors have greater financial, technical, sales and marketing and other resources than the Company. As the market for the Company's network connectivity products expands, and as many of the Company's products are based on open, non-proprietary standards, the Company believes that additional companies may enter the market and thereby intensify competition.

Since entering the network connectivity market early in its history, the Company has increased its recognition and standing in this market area, earning numerous independent awards for technological strength and gaining many large enterprise installations. The Company's various network connectivity products are considered by industry analysts and technology reviewers to be leaders in their markets.

The Company's data integration and reporting products compete in several interrelated areas of the overall business intelligence market, including the data querying and reporting market; the multidimensional analysis/OLAP market; the emerging desktop data mining market; the data transformation market; and the market for integrated query, analysis and reporting products. The business intelligence market is still relatively new and as such is characterized by rapid technological change and a dynamic competitive landscape. The Company's main competition in this area comes from Cognos Inc., Brio Technology Inc., Business Objects, Oracle Corporation and Seagate Technology, Inc., as well as indirectly from Microstrategy, Inc., Informatica Corporation, Informix Software, Inc., Hyperion Solutions Corporation and Microsoft Corporation.

Given the Company's relatively recent entry into the data integration and reporting market, many of the Company's competitors have longer operating histories in this area and, therefore, more established market recognition. Management believes that the Company currently competes favorably with respect to the principal competitive factors outlined above, and that the addition of the Genio product line to the portfolio during fiscal 1999 confers a significant technological advantage compared to the identified competition.

The Company's document and knowledge management products are targeted at the market for open, client/server and thin-client information management solutions, and the Company's competitors offer a variety of products and services to address this market. The Company's document and knowledge management products currently encounter direct competition from Documentum, Inc., FileNet Corporation, Open Text Corporation, Verity Inc., Excalibur Technologies Corporation and Lotus Development Corporation (a subsidiary of IBM). Certain of these competitors have longer operating histories, greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than the Company. In addition to the Company's current competitors, the Company may face competition from new competitors, including relational database management systems vendors such as Oracle Corporation and Sybase, Inc., and operating system and application vendors such as Microsoft Corporation. Certain of these companies currently conduct joint marketing activities with the Company.

For the calendar year 1998, the industry's leading analyst report stated that the Company's products commanded a 42% share of the overall worldwide market for business-process-centric document management, based on measurement of installed customer base. Management believes that the Company's share of this market will continue to grow and strengthen over the next two years as the Company continues to enhance and extend its product lines.

Sales and Distribution Strategy

The Company markets its products in over 50 countries, primarily to large multinational organizations, Fortune 1000 companies and government agencies. Approximately half of the Company's revenue is derived from sales of its products through an established network of business partners.

The Company's principal distribution approach is to create product sales through business partners as well as to continue direct sales to markets not covered by the business partner network. In order to achieve this, the Company has developed a structure that allows for effective worldwide, national, regional and strategic market access.

The Company is strategically well represented on an international basis, with primary operations in Canada, the United States, Europe, South America and the Pacific Rim. The Company uses this infrastructure to launch further international expansion through the recruitment of additional international business partners and the establishment of local delivery and support facilities where appropriate.

The Company's overall marketing strategy is focused on leveraging its established leadership position in network connectivity and document and knowledge management markets across all of its product lines and any future products it may develop or acquire.

The Company has a central marketing department that initiates worldwide marketing, advertising and public relations programs to support the sale and distribution of its products. The Company participates in focused industry trade shows, conferences and industry seminars, advertises in selected trade and business publications both in print and online, runs cooperative marketing programs in support of partners and resellers, and maintains a strong presence on the World Wide Web to promote awareness of its products.

The focus of the Company's marketing activities is on differentiating its products from competitive solutions, raising market awareness of the Company's various product lines, and generating demand among both the Company's existing customers and prospective new customers.

The Company's ongoing efforts to further strengthen its worldwide presence and market acceptance continue to involve the opening of new sales and support offices in strategic locations, and the ongoing expansion of its worldwide sales force. Management believes that an effective distribution channel is critical to the continued achievement of the Company's goals. The Company ensures that its distributors and business partners are highly trained and dedicated to the sales of its products through proactive education, support and partner qualification campaigns. The strength of the Company's current distribution channels continues to represent an important competitive advantage; hence, the Company's marketing strategy emphasizes the continued support and further strengthening of these channels.

The Company's presence in North America is serviced both by the Company's own established facilities in Toronto, Ottawa and Kingston, Canada, and in key locations across the United States, including in California, Washington, D.C., Massachusetts, North Carolina, New York, Illinois, Georgia and Texas. In fiscal 1999, the North American market represented approximately 57% of total sales.

The Company's sales in Europe represented approximately 38% of overall revenue in fiscal 1999. The Company anticipates continued growth in European markets in all of its product lines and is dedicated to the ongoing development of its European sales and support infrastructure. Current primary European offices are in Switzerland, Germany, France, Scandinavia, Italy and the United Kingdom.

Sales in the rest of the world (including the Pacific Rim, Middle East, Africa and South America) accounted for approximately 5% of the Company's revenue in fiscal 1999. The Company currently services the majority of these markets through local Company representation in each region as well as an established network of business partners and distributors.

Year 2000 Readiness

The Company has implemented a Year 2000 Readiness program designed to ensure that the Company's computer systems, hardware and equipment will function properly beyond 1999. The Company's Year 2000 Readiness program incorporates a thorough investigation and review across four different areas: internal IT systems, internal non-IT systems, third-party considerations and the Company's own products. The tasks common to each of these areas of focus are: (a) the identification and assessment of Year 2000 issues; (b) prioritization of these identified issues; (c) assessment of compliance; (d) remedy; (e) testing; and (f) design and implementation of contingency and business continuation plans.

Internal IT Systems
The Company commenced testing on all internal IT systems, hardware and software in 1998, and will continue to test the remainder of the systems and hardware throughout the course of the compliance program. The majority of work in this area was completed as originally scheduled by September 30, 1999. The compliance program was extended to incorporate further reviews necessitated by acquisitions, to ensure that all IT systems in place at acquired companies are also compliant.

Based on its assessments to date, the Company believes that it will not experience any material disruption as a result of Year 2000 issues with any of its internal IT systems. However, there can be no assurance that the systems of other companies on which the Company's systems rely will not experience Year 2000 disruptions and that such disruptions will not have an adverse affect on the Company's systems.

Internal Non-IT Systems
The non-IT systems section includes the hardware, software and associated embedded computer technologies that are used to operate Company facilities, equipment and other activities that are not related to IT systems. The majority of work in this area was completed as originally scheduled by September 30, 1999. The compliance program was extended to incorporate further reviews necessitated by acquisitions, to ensure that all non-IT systems in place at acquired companies are also compliant.

Based on its assessments to date, the Company believes that it will not experience any material disruption as a result of Year 2000 issues with any of its internal non-IT systems. However, there can be no assurance that the systems of other companies on which the Company's non-IT systems rely will not experience Year 2000 disruptions and that such disruptions will not have an adverse affect on the Company's systems.

Third-Party Considerations
The Company has identified, prioritized and communicated with critical suppliers, distributors and customers to determine the extent to which the Company may be vulnerable in the event that those parties fail to properly identify and remedy their own Year 2000 issues.

Detailed evaluations of the most critical third parties have been completed through questionnaires, interviews, on-site visits and other available means. The Company has tested critical system interfaces with these third parties, has formulated appropriate contingency and business continuation plans to address any third-party issues likely to arise and has actively monitored the progress made by these third parties in performing their own Year 2000 preparations.

Products
The Company has completed its review of the software products that it has developed and sells and has determined which are not Year 2000 compliant. Where appropriate, modifications to certain products have been made to ensure that they are Year 2000 compliant. Both existing and prospective customers have been informed of the Year 2000 status of their particular products and whether the Company intends to make them compliant. Although the Company believes that identified modifications have made the selected products Year 2000 compliant, no assurance can be given that additional modifications for Year 2000 compliance will not be necessary. In addition, as the Company's software is typically installed with a customer's other software which may not be Year 2000 compliant, Year 2000 issues may arise which could be attributed to the Company's software products. The Company may incur additional costs in ascertaining the cause of these problems.

The majority of the costs related to the Year 2000 compliance program will be expensed as incurred and are expected to be funded through operating cash flows. In the aggregate, these costs have so far not been and are not expected to be substantially different from normal, recurring costs that are incurred for system development and implementation. As a result, these costs are not expected to have a material adverse effect on the Company's overall results of operations or cash flows.

The assessment of the costs of the Company's Year 2000 compliance effort, and the timetable for the Company's planned completion of the Year 2000 compliance program, are management's best estimates. These estimates were based upon numerous assumptions as to future events, including assumptions as to the continued availability of certain resources, in particular personnel with experience in this area, and as to the ability of such personnel to locate and either reprogram or replace, and test, all affected computer software systems and hardware in accordance with the Company's planned schedule. There can be no guarantee that these estimates will prove accurate, and actual results could differ from those estimated if these assumptions prove inaccurate. Based upon progress to date, however, the Company believes that it is unlikely that the foregoing factors will cause actual results to differ significantly from those estimated.

It is also recognized that the purchasing patterns of software customers and thus the demand for software may be affected by the Year 2000 in a number of different ways. Customers in the process of replacing or upgrading software not designed to accommodate the Year 2000 may generate some portion of the current demand for software. Once such customers have completed their preparations for the Year 2000, the software industry, generally, and the Company, specifically, may experience deceleration from the strong annual growth rates recently experienced in the software marketplace. In addition, as certain customers expend significant amounts of time and money on resolving their Year 2000 issues, they may reduce or completely cancel expenditures that had been allocated for the Company's software products. No assurance can be given that general market conditions such as these will not have a material affect on the Company's operations.

Conclusion

The Company remains committed to creating long-term value for its shareholders. To this end, the Company works to expand its markets and increase sales by providing customers with superior software solutions in all product areas currently served. In addition, the Company is committed to strengthening inside sales forces and professional services staffing. Going forward, the Company will further build upon its distribution channels, strengthening its product penetration throughout global markets, and developing and enhancing leading-edge technology offerings.

Factors That May Affect Future Results

From time to time, certain information provided by the Company or its employees that is not historical fact may involve risks and uncertainties, specifically any statements relating to the Company's expectations for future sales of its products. Future results may differ from those conveyed in any forward-looking statements. Factors that may cause such differences include, but are not limited to, the factors discussed below. These factors, and others, are discussed from time to time in the Company's filings with various regulatory authorities. Although management remains optimistic about the Company's long-term prospects, the Company's future results are subject to substantial risks and uncertainties.

Fluctuations in Quarterly Operating Results

Although the Company has experienced significant growth over its history, such growth rates are not necessarily sustainable and should not be considered indicative of future operating results. The Company has experienced significant increases in operating expenses in recent periods, as it has continued to expand its organization to support sales growth and product development. These increases are expected to continue and, together with pricing pressures, may result in a decrease in operating income as a percentage of sales in future periods. The Company's expense levels are based in part on its expectations as to future orders and sales, and the Company may be unable to adjust spending in a timely manner to compensate for any sales shortfall. Accordingly, operating results would be adversely affected by a reduction in orders in a given quarter.

Sales

There can be no assurance that sales of the Company's products will continue to grow significantly. Sales are subject to certain conditions outside the Company's control, such as increased sales of personal computers, expansion of corporate networks and prevailing economic conditions.

Technological Change

The markets within which the Company operates experience rapid technological change. It is important that the Company maintain a thorough understanding of market direction, future needs of customers, and new and emerging technologies. There can be no assurance that the Company's products will remain competitive, or that new technologies will not be introduced by other vendors, rendering the Company's products obsolete.

Intellectual Property

Although the Company makes every effort to protect its intellectual property rights, there can be no assurance that unlicensed copying of its software will not take place, especially in international markets where laws do not strongly protect intellectual property rights.

Competition

The market for the Company's products is intensely competitive and significantly affected by new product introductions and other market activities of industry participants. Although the Company continues to introduce products to market ahead of comparable offerings and is considered to be a strong competitive force in the industry, there can be no assurance that competitors will not strengthen and increase the pace of their product introductions.

Dependence on Personnel

The success of the Company is dependent on the services of certain personnel, including members of senior management. The experience of these individuals is a key contributing factor to the Company's continued success and growth. The software market is highly competitive for recruiting and retaining qualified personnel. An inability to attract and retain qualified personnel in all areas of its business could adversely affect the operations of the Company. The Company's human resources department is highly focused on recruiting qualified personnel and on building attractive programs geared toward retaining these important people.

Management's Responsibility for Financial Reporting

The accompanying financial statements and all the information contained in this annual report are the responsibility of management and have been approved by the Board of Directors. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

These financial statements and all other information have been prepared by management in accordance with accounting principles generally accepted in the United States and Canada, respectively. Some amounts included in the financial statements are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal controls. These controls ensure that transactions are authorized, assets are safeguarded from loss or unauthorized use, and financial records are reliable for the purpose of preparing financial statements. The Board of Directors carries out its responsibility for the financial statements through the Audit Committee, which consists of a majority of non-managing directors. The Audit Committee periodically reviews and discusses financial reporting matters with the Company's auditors, Deloitte & Touche LLP, as well as with management.

The financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants.

Fred Sorkin
Chairman & Chief Executive Officer

Inder P.S. Duggal
Chief Financial Officer & Chief Controller

Auditors' Report

To the Shareholders of
Hummingbird Communications Ltd.

We have audited the consolidated balance sheets of Hummingbird Communications Ltd. as at September 30, 1999 and 1998 and the consolidated statements of income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in the United States.

On November 22, 1999, we reported separately to the shareholders of Hummingbird Communications Ltd. on the consolidated financial statements for the same period, prepared in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

Toronto, Ontario
November 22, 1999, except for Note 20 which is as of December 13, 1999

Consolidated Balance Sheets

As at September 30 (thousands of U.S. dollars)	1999	1998
ASSETS		
CURRENT		
Cash (Note 3)	$ 18,147	$ 27,817
Short-term investments (Note 3)	–	110,300
Accounts receivable	60,281	29,809
Unbilled receivables	2,016	–
Income taxes recoverable	9,133	4,211
Inventory	694	893
Prepaid expenses	11,510	1,701
Other receivables (Note 2)	30,694	811
	132,475	175,542
OTHER ASSETS	4,675	1,306
FIXED ASSETS (Note 4)	18,802	12,920
INTANGIBLES (Note 5)	210,444	12,430
DEFERRED INCOME TAXES (Note 10)	–	1,921
	$ 366,396	$ 204,119
LIABILITIES		
CURRENT		
Accounts payable	$ 6,778	$ 3,983
Accrued liabilities	54,804	11,067
Current portion of long-term debt (Note 6)	30,279	–
Current portion of obligations under capital leases (Note 7)	2,556	–
Deferred revenue	29,828	7,835
	124,245	22,885
DEFERRED INCOME TAXES (Note 10)	24,812	–
LONG-TERM DEBT (Note 6)	35,761	–
OBLIGATIONS UNDER CAPITAL LEASES (Note 7)	1,347	–
OTHER LONG-TERM LIABILITIES (Note 8)	1,270	–
	187,435	22,885
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 9)	86,791	87,293
ADDITIONAL PAID-IN CAPITAL	3,510	3,369
RETAINED EARNINGS	89,590	91,831
ACCUMULATED OTHER COMPREHENSIVE LOSS	(930)	(1,259)
	178,961	181,234
	$ 366,396	$ 204,119

Approved by the Board of Directors

Fred Sorkin, Director

Andrew J. Malik, Director

Consolidated Statements of Income

Years ended September 30 (thousands of U.S. dollars, except share data)	1999	1998
SALES	$ 165,930	$ 129,957
COST OF SALES	16,759	6,148
GROSS PROFIT	149,171	123,809
EXPENSES		
Sales and marketing	65,779	40,449
Research and development	22,546	14,929
General and administration	16,178	9,601
Merger and restructuring (Note 11)	8,750	5,715
Compensation related to stock options	141	723
Amortization of intangibles	13,014	3,507
Write-off of intangibles (Notes 2 and 5)	15,839	1,498
TOTAL EXPENSES	142,247	76,422
INCOME BEFORE THE UNDERNOTED	6,924	47,387
OTHER INCOME, NET	4,455	6,870
GAIN ON SALE OF INVESTMENT IN SUBSIDIARY (Note 2)	5,204	–
INCOME BEFORE INCOME TAXES	16,583	54,257
INCOME TAXES (Note 10)		
Current	20,101	25,993
Deferred	(3,797)	1,665
	16,304	27,658
NET INCOME	$ 279	$ 26,599
BASIC EARNINGS PER SHARE	$ 0.02	$ 1.70
DILUTED EARNINGS PER SHARE	$ 0.02	$ 1.68
BASIC WEIGHTED AVERAGE NUMBER OF SHARES (in thousands)	15,390	15,597
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES (in thousands)	15,413	15,833

Consolidated Statements of Shareholders' Equity

Years ended September 30 (thousands of U.S. dollars)

	Common Shares (Note 9) Shares	Common Shares (Note 9) Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE OCTOBER 1, 1997	15,544,797	$ 85,288	$ 2,646	$ 69,850	$ (1,181)	$ 156,603
COMPREHENSIVE INCOME						
Foreign currency translation	–	–	–	–	(78)	(78)
Net income	–	–	–	26,599	–	26,599
TOTAL COMPREHENSIVE INCOME						26,521
STOCK OPTION LOANS REPAID	–	59	–	–	–	59
SHARES REPURCHASED	(308,300)	(1,736)	–	(4,618)	–	(6,354)
STOCK OPTIONS EXERCISED DURING FISCAL 1998 UNDER THE ESOP	271,443	3,682	–	–	–	3,682
COMPENSATION RELATED TO STOCK OPTIONS	–	–	723	–	–	723
BALANCE SEPTEMBER 30, 1998	15,507,940	87,293	3,369	91,831	(1,259)	181,234
COMPREHENSIVE INCOME						
Foreign currency translation	–	–	–	–	329	329
Net income	–	–	–	279	–	279
TOTAL COMPREHENSIVE INCOME						608
SHARES REPURCHASED	(178,900)	(1,007)	–	(2,520)	–	(3,527)
STOCK OPTIONS EXERCISED DURING FISCAL 1999 UNDER THE ESOP	42,596	505	–	–	–	505
COMPENSATION RELATED TO STOCK OPTIONS	–	–	141	–	–	141
BALANCE SEPTEMBER 30, 1999	15,371,636	$ 86,791	$ 3,510	$ 89,590	$ (930)	$ 178,961

Consolidated Statements of Cash Flows

Years ended September 30 (thousands of U.S. dollars)	1999	1998
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income	$ 279	$ 26,599
Add (deduct) items not affecting cash:		
Amortization of intangibles	13,014	3,507
Write-off of intangibles	15,839	1,498
Compensation related to stock options	141	723
Gain on sale of investment in subsidiary (Note 2)	(5,204)	–
Deferred income taxes	(3,797)	1,665
Depreciation	5,044	2,698
	25,316	36,690
Changes in non-cash working capital		
Accounts receivable	(8,957)	9
Unbilled receivables	(929)	–
Inventory	475	205
Income taxes recoverable	(5,002)	–
Prepaid expenses and other assets	1,579	(46)
Other receivables	(1,284)	(599)
Accounts payable	(1,224)	267
Accrued liabilities	(9,745)	1,063
Deferred revenue	6,878	1,653
Income taxes payable	–	(7,840)
	7,107	31,402
INVESTING		
Short-term investments purchased	–	(173,181)
Short-term investments matured	110,300	161,974
Acquisition of subsidiaries (Note 2)	(184,885)	(8,682)
Sale of investment in subsidiary (Note 2)	12,314	–
Additions to fixed assets	(3,714)	(7,920)
	(65,985)	(27,809)
FINANCING		
Long-term debt issued	65,500	–
Long-term debt repaid	(12,652)	–
Repayment of obligations under capital leases	(432)	–
Other long-term liabilities	(186)	–
Shares repurchased	(3,527)	(6,354)
Issuance of shares	505	4,013
	49,208	(2,341)
INCREASE (DECREASE) IN CASH	(9,670)	1,252
CASH, BEGINNING OF YEAR	27,817	26,565
CASH, END OF YEAR	$ 18,147	$ 27,817
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	$ 1,616	$ 16
Income taxes paid	22,684	26,606

Notes to the Consolidated Financial Statements

September 30, 1999 and 1998 (amounts in thousands of U.S. dollars, except share data)

1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Description of the business

Hummingbird Communications Ltd. (the "Company") is a developer of enterprise software solutions that provide access to all business-critical information and resources.

b) Significant accounting policies

i) Generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles.

ii) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary companies. Acquisitions accounted for by the purchase method have included results of operations of subsidiaries from the effective dates of their respective acquisitions. When it has been appropriate to use the pooling of interest method to account for an acquisition, the Company's consolidated financial statements have been restated to include the results of operations of the pooled companies for all periods presented.

iii) Revenue recognition

The Company recognizes revenue from the sale of product and software licenses when goods are shipped based on purchase orders, provided that no significant vendor obligations remain and collection of the resulting receivable is deemed probable by management. Revenue from post-contract customer support is recognized ratably over the period that the customer support services are provided, which is generally one year. Revenues from consulting, training and other services are recognized as services are performed. Revenues from the sale of computer hardware are recognized upon shipment. Deferred revenue represents unearned income associated with support agreements, software license revenue where significant vendor obligations remain and any payments received in advance of revenue recognition.

iv) Unbilled receivables

Unbilled receivables represent amounts receivable for software and hardware shipped to customers which will become billable in accordance with contractual payment terms.

v) Cash

Cash includes cash equivalents, which are investments having an original term to maturity of less than or equal to 90 days.

vi) Short-term investments

Short-term investments are investments having an original term to maturity of greater than 90 days. Short-term investments are carried at cost, which approximates fair market value, are normally held to maturity, and comprise commercial paper, corporate debt and money market funds.

1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Significant accounting policies *(continued)*

vii) Fixed assets

Fixed assets are stated at cost. Depreciation is provided as follows:

Buildings	4% declining balance
Laboratory equipment	5 years straight-line
Furniture and fixtures	5 years straight-line
Leasehold improvements	5 years straight-line

The cost of repairs and maintenance is charged to expense as incurred. Renewals and betterments are capitalized. Upon retirement or sale of an asset, its cost and related accumulated depreciation or amortization are removed from the accounts and any gain or loss is recorded in income or expense. The Company continually reviews fixed assets to determine that the carrying values have not been impaired.

viii) Inventory

Inventory is stated at the lower of cost or net realizable value as determined by the first-in first-out method.

ix) Intangibles

Intangibles include goodwill and acquired technology and other items which are stated at their assigned value. Amortization is provided on the straight-line basis over periods of three to ten years. The carrying value of intangibles is reviewed regularly for recoverability based on the future operating income generated by the related assets. Where future recoverability is not assured, the intangibles are written down to their net recoverable value.

x) Foreign currency translation

Monetary assets and liabilities denominated in currencies other than U.S. dollar are translated into U.S. dollars at the rate of exchange prevailing at year end, while other balance sheet items are translated at historic rates. Revenue and expense items are translated at the rate of exchange in effect on the transaction dates. Realized as well as unrealized foreign exchange gains and losses are included in income in the year in which they occur.

xi) Income taxes

The Company calculates its provision for income taxes in accordance with Statement of Financial Accounting Standard No. 109 "Accounting for Income Taxes" ("SFAS 109"), which requires an asset and liability approach to financial accounting for income taxes.

xii) Lease inducements

Lease inducements represent leasehold improvements paid for by the landlord and the value of rent-free periods. Lease inducements are amortized on a straight-line basis over the periods of the leases, and the amortization is recorded as a reduction of rent expenses.

xiii) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management has made estimates for the recoverability of goodwill and acquired research and development, and restructuring and integration costs related to the acquisitions of PC DOCS Group International Inc. ("PC DOCS") and Leonard's Logic SA. Actual results could differ from those estimates.

1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Significant accounting policies *(continued)*

xiv) Product development costs

The Company expenses research costs when they are incurred. Software development costs are expensed as incurred unless they meet the criteria for deferral and amortization required by generally accepted accounting principles. Development costs incurred prior to the establishment of technological feasibility are expensed, as they do not meet the criteria. Capitalized costs are amortized on a straight-line basis over the remaining economic life of the related product, not exceeding two years. The Company reassesses the relevant criteria for deferral and amortization at each reporting date.

xv) Other assets

This amount is comprised of payments made to third parties for the licensing of technology used directly or indirectly in the development process. The Company amortizes these amounts over periods ranging from one to two years on a straight-line basis.

2. MERGERS, ACQUISITIONS AND DIVESTITURES

During the year, the Company completed three acquisitions. On June 23, 1999, the Company acquired 92.64% of the issued and outstanding shares of PC DOCS. The Company acquired the remaining 7.36% of the shares of PC DOCS and settled outstanding employees' and officers' share options by September 10, 1999. On March 11, 1999, the Company acquired 100% of the issued and outstanding shares of Leonard's Logic SA. PC DOCS and Leonard's Logic SA are involved in the development of software and solutions. On March 10, 1999, the Company acquired all rights to Financial Frameworks software technology and all intellectual property related thereto from Context, Inc. The acquisitions have been accounted for by the purchase method of accounting, and accordingly, the results of operations of the acquired entities have been included in the consolidated financial statements from the respective dates of acquisition.

	1999	1998
Net assets acquired, at assigned value:		
Current assets	$ 66,839	$ 2,046
Liabilities	(114,085)	(3,710)
Intangibles		
Workforce	16,680	–
Trademarks	21,500	–
Prepaid royalty	3,700	–
In-process research and development	14,020	–
Acquired technology	59,630	–
Goodwill	116,455	9,677
Other non-current assets	26,768	669
	$ 211,507	$ 8,682
Consideration given:		
Cash	$ 184,885	$ 8,682
Transaction and integration costs	26,622	–
Total	$ 211,507	$ 8,682

2. MERGERS, ACQUISITIONS AND DIVESTITURES *(continued)*

Unaudited pro forma results, assuming the acquisitions had taken place at the beginning of the periods, would be as follows:

	1999	1998
Sales	$ 225,789	$ 203,689
Net loss	(17,942)	(66,543)
Loss per share	(1.17)	(4.27)

Such pro forma results are not necessarily indicative of what the actual consolidated results of operations might have been if the acquisition had been effective at the beginning of fiscal 1998.

In-process research and development has been expensed in the respective year in accordance with Statement of Financial Accounting Standard No. 86 "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed" ("SFAS No. 86"), which requires in-process research and development to be written off. During the year, $14,020 of in-process research and development has been written off.

In conjunction with the acquisition of PC DOCS, the Company entered into an agreement to sell CMS/Data Corporation ("CMS/Data"), a wholly-owned subsidiary of PC DOCS, to a third party for gross proceeds of $30,000, subject to a purchase price adjustment. The transaction became effective on September 30, 1999 and the proceeds are included in Other Receivables. The Company has appropriately not included any results of operations from CMS/Data during the year.

On January 5, 1998, the Company merged with computer software developer Andyne Computing Limited ("Andyne") by exchanging each of the approximately 8,111,000 outstanding shares and stock options of Andyne for 1,520,406 common shares of the Company, plus a nominal cash amount for fractional shares. The merger was accounted for as a pooling of interests, and accordingly, the consolidated financial statements of the Company have been restated to include the financial statements of Andyne for all previous periods. Prior to combining, the financial statements of Andyne were adjusted to conform to the accounting policies of the Company. The Company expensed all direct as well as integration costs associated with the merger. (See Note 11.)

During the year ended September 30, 1998, the Company acquired all of the issued and outstanding shares of Datenrevision GmbH, a computer software consulting firm located in Germany, and acquired further interests in Andyne Australia and Andyne UK Limited (formerly Soft Toolrack Limited) to bring ownership to 100%.

Effective August 31, 1999, the Company sold its investment in Datenrevision GmbH, a wholly-owned subsidiary, to a third party. On the closing of the transaction, the Company received proceeds of $12,314, resulting in a pre-tax gain of $5,204.

Subsequent to year end, the Company amalgamated with PC DOCS, PC DOCS Group Canada Inc. and Fulcrum Technologies Inc., wholly-owned subsidiaries.

3. CASH AND SHORT-TERM INVESTMENTS

The following table details the Company's cash and short-term investments:

	1999	1998
Commercial paper	$ –	$ 123,900
Corporate debt	–	10,019
Cash	18,147	4,198
	$ 18,147	$ 138,117
Included in cash	$ 18,147	$ 27,817
Included in short-term investments	–	110,300
	$ 18,147	$ 138,117

All investments are classified as held to maturity and are due within one year. Cost approximates fair value. (See Note 14.)

4. FIXED ASSETS

	1999			1998		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land and buildings	$ 6,104	$ 332	$ 5,772	$ 5,835	$ 122	$ 5,713
Laboratory equipment	23,712	13,973	9,739	11,331	6,328	5,003
Furniture and fixtures	4,212	2,148	2,064	2,790	974	1,816
Leasehold improvements	1,842	615	1,227	541	153	388
	$ 35,870	$ 17,068	$ 18,802	$ 20,497	$ 7,577	$ 12,920

5. INTANGIBLES

	1999			1998		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Goodwill	$ 118,292	$ 14,664	$ 103,628	$ 21,786	$ 9,356	$ 12,430
Acquired technology	69,730	3,372	66,358	–	–	–
Other intangibles	41,880	1,422	40,458	–	–	–
	$ 229,902	$ 19,458	$ 210,444	$ 21,786	$ 9,356	$ 12,430

5. INTANGIBLES *(continued)*

In accordance with its accounting policy on intangibles, the Company regularly reviews the carrying value of intangibles to determine recoverability. During the current year, the Company wrote off goodwill related to the acquisition of Andyne UK Limited, a wholly-owned subsidiary, in the amount of $1,819. During the year ended September 30, 1998, the Company wrote off the goodwill related to Andyne France ($635), Andyne Australia ($701) and a portion of the goodwill related to Andyne UK Limited ($162) for a net total of $1,498 (Note 2).

6. LONG-TERM DEBT

	1999	1998
Bank loan		
Credit Facility A Non-revolving term, to a maximum of US$70,000, secured, due December 17, 2000	$ 52,000	$ –
Credit Facility B Revolving term, to a maximum of US$30,000, secured, due December 17, 2000	13,500	–
Other loans	540	–
	66,040	–
Less: Long-term debt due within one year	30,279	–
	$ 35,761	$ –

During the year, the Company entered into a Credit Agreement with a financial institution that provides for two credit facilities. Each facility bears interest at prime plus 1.25% per annum on prime rate advances, base rate plus 1.25% per annum on base rate advances, and LIBOR rate plus 2% per annum on LIBOR advances. The two facilities are secured by a first-ranking $150,000 fixed and floating charge debenture, general assignment of book debts, general security agreements, a first-ranking specific security on intellectual property rights and a first-ranking pledge of PC DOCS shares. Both facilities mature December 17, 2000.

Credit Facility A is solely to finance the acquisition of PC DOCS, and any unutilized portion as of November 1, 1999 will be canceled. As of November 1, 1999, the unutilized portion was $48,000. There are no principal repayments until maturity, except for asset disposition proceeds and proceeds of securities issuances. Credit Facility B has no principal repayments until maturity, except for asset disposition proceeds and proceeds of securities issuances after they have been applied firstly to Credit Facility A.

The Company also has other loans which bear interest at rates between 7% and 7.5% and are due by September 30, 2001.

Long-term debt repayments are scheduled as follows:

2000	$ 30,279
2001	35,761

During the year ended September 30, 1999, interest on long-term debt was $1,440.

7. CAPITAL LEASE OBLIGATIONS

As at September 30, 1999, capital lease obligations are secured by specific computer, furniture and telephone equipment, and bear interest at imputed rates of between 7% and 10% per annum.

The following is a schedule of the minimum lease payments:

2000	$	2,771
2001		1,371
Total minimum lease payments		4,142
Amount representing interest		239
		3,903
Less: Current portion		2,556
	$	1,347

During the year ended September 30, 1999, interest on capital lease obligations was $176.

8. OTHER LONG-TERM LIABILITIES

As at September 30, 1999, the unamortized balance of lease inducements was $793 and the deferred gain on the sale and subsequent lease-back of assets under capital lease was $477.

9. SHARE CAPITAL

Authorized

Unlimited number of common shares, no par value
Unlimited number of preferred shares issuable in series and whose attributes shall be fixed by the Board of Directors prior to issue

Share capital has been reduced by loans to employees to purchase common shares totaling $139 (1998 – $139) at year end. The loans are secured by shares of the Company, are non-interest bearing and are repayable on demand.

Share Repurchase Program

On August 17, 1998, the Company announced an open market share repurchase program for up to 1,000,000 common shares at the prevailing market price on the Toronto Stock Exchange. This program was in effect until August 18, 1999. During the year ended September 30, 1999, the Company repurchased 178,900 shares at an average price of $19.71 per share for a total consideration of $3,527, which has been applied to reduce share capital and retained earnings by $1,007 and $2,520, respectively. During the year ended September 30, 1998, the Company had repurchased 308,300 shares at an average price of $20.61 per share for a total consideration of $6,354, which was applied to reduce share capital and retained earnings by $1,736 and $4,618, respectively.

9. SHARE CAPITAL *(continued)*

Employee Stock Option Plan

The Company's current stock option plan, the 1996 Employee Stock Option Plan ("1996 ESOP"), has been in effect since January 1996 and was approved by the shareholders at the Company's annual and special meeting on March 19, 1996. This plan replaced the 1993 Employee Stock Option Plan, which had been in effect since July 1993. Under the 1996 ESOP, the Company had reserved 2,000,000 common shares for issuance. At the fiscal 1996 annual and special meeting of shareholders held on March 25, 1997, the number of shares reserved by the Company for the 1996 ESOP was amended to 3,000,000 common shares. At the 1998 annual and special meeting of shareholders held on May 14, 1999, the number of shares reserved for issuance under the 1996 ESOP was further amended to 3,500,000 common shares.

The following stock options have been granted and remain outstanding at September 30, 1999:

Granted	Number of Shares	Weighted Average Exercise Price	Expiry Date
1994	10,432	$ 12.14	August 11, 2000
1995	377,651	25.21	September 1, 2001
1996	183,883	37.87	September 3, 2002
1997	328,438	30.29	September 3, 2003
1998	597,183	29.34	September 3, 2004
1999	1,317,450	16.49	September 7, 2005
	2,815,037	$ 23.38	

One third of such options become exercisable on each of the three anniversaries after the respective date of grant. Options are exercisable for six years after their date of grant. During the year, 431,037 options were canceled or expired (1998 – 283,506).

Accounting for Stock-Based Compensation

The Company applies APB Opinion 25 in accounting for its stock option plan. Under the current stock option plan, stock options are granted at the market price on the day before the date of grant. Accordingly, no compensation has been recognized in connection with these options. However, under the 1993 ESOP, which was in effect until December 1995, options were granted at 90% of the market value on the day before the date of grant. Accordingly, the Company has accrued compensation expense related to the difference between the grant and market price.

If the Company had used the method prescribed by Statement of Financial Accounting Standard No. 123 ("SFAS No. 123"), which recognizes the fair values of the stock options granted as compensation cost on a straight-line basis over the vesting period, compensation related to stock options would have reduced net income and earnings per share respectively by $7,752 and $0.50 for fiscal 1999 and $6,485 and $0.41 for fiscal 1998. The fair value of the stock options on their date of grant was estimated by utilizing a Black-Scholes option pricing model with weighted average assumptions for fiscal 1999 and 1998, as follows: risk-free interest rate of 5%, expected life of the stock options of four years, expected volatility in the range of 36% to 47% and a dividend yield of zero.

This pro forma calculation includes the impact of the 1996 stock option plan only. As such, the above pro forma disclosure is not indicative of pro forma amounts that may be reported in future years.

10. INCOME TAXES

The Company's income tax expense varies from tax computed using statutory rates due to the following:

	1999	1998
Income before income taxes	$ 16,583	$ 54,257
Combined basic federal and provincial income taxes at 44.62%	$ 7,400	$ 24,211
Increase (decrease) resulting from:		
Foreign rate differences	(2,154)	–
Amortization of tangibles, net of disposition on sale of subsidiary	4,022	1,565
Write-off of intangibles	7,067	669
Non-deductible amounts	438	1,513
Other	(469)	(300)
	$ 16,304	$ 27,658

Deferred tax assets and (liability) at September 30, 1999 and 1998 are as follows:

	1999	1998
Deferred tax assets:		
Loss carryforwards	$ 10,683	$ 1,287
Temporary differences	15,783	1,436
Share issue costs	–	253
	26,466	2,976
Deferred tax liability:		
Temporary differences	(49,004)	(1,055)
	(22,538)	1,921
Valuation allowance	(2,274)	–
Net deferred (liability) asset	$ (24,812)	$ 1,921

Temporary differences included in deferred tax assets and liabilities are primarily related to intangible assets, fixed assets, merger and restructuring costs and donations.

A valuation allowance of $2,274 has been recorded for a portion of the deferred tax asset attributable to tax loss carryforwards. The Company believes it is more likely than not that a portion of such deferred tax asset will not be realized.

10. INCOME TAXES *(continued)*

As at September 30, 1999, the Company had tax loss carryforwards of approximately $26,856 available to reduce future years' income for tax purposes. These losses expire as follows:

Expiry		
2002	$	2,347
2003		9,095
2004		2,297
2005		5,123
2006		2,553
2011		2,500
2013		2,941
	$	26,856

11. MERGER AND RESTRUCTURING CHARGES

In conjunction with the Company's recent acquisitions and particularly the PC DOCS acquisition, management undertook a thorough review of all aspects of the Company and its operations. In its review, management considered the changing market and industry trends to Internet-based products, synergies to be attained from PC DOCS combining with existing operations, and costs associated with the elimination of organizational and facility duplication.

This review determined significant planned restructuring, including integration of operations, resulting in reductions to overhead, closures of duplicate offices, and refocusing future efforts on integration of products and operations.

As a result of this review, management made a charge of $8,750 to income in the year ended September 30, 1999 which includes closure of offices, reduction in personnel, and charges to the carrying values of assets and expenses relating to the those offices and personnel.

In 1998, merger and restructuring charges of $5,715 were expensed and comprised costs of $4,363 associated with the Andyne merger (Note 2) and costs of $1,352 associated with the discontinuance of the Common Ground product line.

12. EARNINGS PER COMMON SHARE

Basic earnings per share have been calculated based on the weighted average number of common shares without the inclusion of dilutive effects. Diluted earnings per share are calculated based on the weighted average number of shares plus dilutive common share equivalents outstanding, which in the Company's case, consist entirely of stock options.

13. COMMITMENTS AND CONTINGENCIES

The Company has entered into agreements related to operating leases for premises, automobiles and equipment and has made commitments for charitable donations requiring payments as follows:

2000	$	5,899
2001		3,816
2002		2,647
2003		1,754
2004		1,730
Thereafter		4,507
	$	20,353

The Company is subject to various claims and proceedings which have been instituted against it during the normal course of business. Management believes that the disposition of the matters pending or asserted, for which provision has not been made, is expected not to have a material adverse effect on the financial position of the Company or its results of operations.

14. FINANCIAL INSTRUMENTS

Off-Balance Sheet Risk

The Company's objective with respect to foreign currency exposure management is to neutralize the impact of foreign currency exchange movements. To achieve this objective, the Company enters into foreign exchange forward contracts to hedge foreign currency receivables and payables. It is the Company's policy to enter into foreign exchange contracts only with major Canadian chartered banks and major international banks, and therefore the Company does not anticipate non-performance by these counterparts. As at September 30, 1999, the Company was not involved in any foreign exchange contracts.

Concentration of Credit Risk

Surplus cash is invested according to the Company's investment policy, which states the primary objective as the preservation of capital. Investment credit risk is managed by limitations on the grade of securities, diversification of issuers and limitations on terms to maturity. Cash equivalents at September 30, 1998 included corporate debt of $10,019 which represented the Company's primary investment credit risks. No short-term investments were held at September 30, 1999.

The Company markets and supports its products internationally, both directly and through resellers, and is not dependent on any single customer, group of customers or supplier. Credit risk related to the Company's trade receivables is minimized due to its large customer base, geographical distribution and diversification of operations.

Fair Value of Financial Instruments

The carrying values of the Company's financial instruments, including cash, cash equivalents, short-term investments, accounts receivable, unbilled receivables, long-term debt, capital lease obligations, other liabilities, accounts payable and accruals approximate fair value due to their short-term nature.

15. GEOGRAPHIC SEGMENT INFORMATION

The Company operates and manages its business in one industry segment – the computer software development industry.

Sales by Country of Origin

September 30, 1999

	U.S.	Canada	Europe	Eliminations	Consolidated
Sales	**$ 41,675**	**$ 109,883**	**$ 54,731**	**$ (40,359)**	**$ 165,930**
Identifiable assets	**$ 52,754**	**$ 116,073**	**$ 46,873**	**$ (59,748)**	**$ 155,952**
Intangibles					**210,444**
Total assets					**$ 366,396**

September 30, 1998

	U.S.	Canada	Europe	Eliminations	Consolidated
Sales	$ 20,940	$ 109,702	$ 19,446	$ (20,131)	$ 129,957
Identifiable assets	$ 7,469	$ 172,726	$ 11,494	$ –	$ 191,689
Intangibles					12,430
Total assets					$ 204,119

Geographical distribution of sales by customer location was approximately as follows:

	1999	1998
U.S.	**$ 88,652**	$ 75,489
Europe	**63,749**	44,439
Canada	**5,976**	4,675
Others	**7,553**	5,354
Total	**$ 165,930**	$ 129,957

During the year, the Company adopted Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 redefines how operating segments are determined and requires disclosure of certain financial and descriptive information regarding those segments.

16. SUPPLEMENTARY INFORMATION

i) Allowances for doubtful accounts on accounts receivable as at September 30, 1999 and 1998 were $2,728 and $954, respectively.

ii) Foreign exchange gains and losses for the years ended September 30, 1999 and 1998 were a gain of $597 and a loss of $630, respectively.

iii) Advertising and media costs for the years ended September 30, 1999 and 1998 were $9,621 and $7,798, respectively.

iv) Taxes, other than payroll and income taxes, for the years ended September 30, 1999 and 1998 were $1,143 and $385, respectively.

17. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes standards for derivative instruments and hedging activities. It requires that all derivatives be recognized as either assets or liabilities on the Balance Sheet and be measured at fair value. This Statement is effective for fiscal years beginning after June 15, 2000. Prior periods should not be restated. The Company has not yet determined the effect of adopting this new standard, if any, on the Company's consolidated financial position, results of operations or cash flows.

18. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

19. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified in order to conform to the presentation adopted in the current year.

20. SUBSEQUENT EVENT

On December 13, 1999, the Company agreed to issue 1,500,000 common shares at Cdn. $45.00 per share to certain security dealers ("Underwriters"). In addition, the Underwriters have the option to acquire up to an aggregate of 500,000 additional common shares.

Auditors' Report

To the Shareholders of
Hummingbird Communications Ltd.

We have audited the consolidated balance sheets of Hummingbird Communications Ltd. as at September 30, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1999 and 1998 and the results of its operations and the changes in its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

Toronto, Ontario
November 22, 1999, except for Note 19 which is as of December 13, 1999

Consolidated Balance Sheets

As at September 30 (thousands of U.S. dollars)	1999	1998
ASSETS		
CURRENT		
Cash	$ 18,147	$ 27,817
Short-term investments	–	110,300
Accounts receivable	60,281	29,809
Unbilled receivables	2,016	–
Inventory	694	893
Prepaid expenses	11,510	1,701
Income taxes recoverable	9,133	4,211
Other receivables (Note 3)	30,833	950
	132,614	175,681
OTHER ASSETS	4,675	1,306
FIXED ASSETS (Note 4)	18,802	12,920
INTANGIBLES (Note 5)	208,436	54,807
DEFERRED INCOME TAXES	19,319	–
	$ 383,846	$ 244,714
LIABILITIES		
CURRENT		
Accounts payable	$ 6,778	$ 3,983
Accrued liabilities	54,804	11,067
Current portion of long-term debt (Note 6)	30,279	–
Current portion of obligations under capital leases (Note 7)	2,556	–
Deferred revenue	29,828	7,835
	124,245	22,885
DEFERRED INCOME TAXES	–	2,215
LONG-TERM DEBT (Note 6)	35,761	–
OBLIGATIONS UNDER CAPITAL LEASES (Note 7)	1,347	–
OTHER LONG-TERM LIABILITIES (Note 8)	1,270	–
	162,623	25,100
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 9)	124,261	125,105
CUMULATIVE TRANSLATION ADJUSTMENTS	329	–
RETAINED EARNINGS	96,633	94,509
	221,223	219,614
	$ 383,846	$ 244,714

Approved by the Board of Directors

Fred Sorkin, Director

Andrew J. Malik, Director

Consolidated Statements of Income and Retained Earnings

Years ended September 30 (thousands of U.S. dollars, except share data)	1999	1998
SALES	$ 165,930	$ 126,053
COST OF SALES	16,759	5,662
GROSS PROFIT	149,171	120,391
EXPENSES		
Sales and marketing	65,779	37,121
Research and development	22,546	13,550
General and administration	16,178	9,048
Restructuring (Note 11)	8,750	1,352
Amortization of intangibles	23,351	12,909
Write-off of intangibles (Note 5)	1,819	4,330
TOTAL EXPENSES	138,423	78,310
INCOME BEFORE THE UNDERNOTED	10,748	42,081
OTHER INCOME, NET	4,455	6,798
GAIN ON SALE OF INVESTMENT IN SUBSIDIARY (Note 2)	5,204	–
INCOME BEFORE INCOME TAXES	20,407	48,879
INCOME TAXES (Note 10)		
Current	20,101	26,133
Deferred	(3,996)	1,796
	16,105	27,929
NET INCOME	4,302	20,950
PREMIUM ON SHARES REPURCHASED	(2,178)	(4,053)
RETAINED EARNINGS, BEGINNING OF YEAR	94,509	77,612
RETAINED EARNINGS, END OF YEAR	$ 96,633	$ 94,509
BASIC EARNINGS PER SHARE	$ 0.28	$ 1.37
FULLY DILUTED EARNINGS PER SHARE	$ 0.28	$ 1.30
BASIC WEIGHTED AVERAGE NUMBER OF SHARES (in thousands)	15,390	15,271
FULLY DILUTED WEIGHTED AVERAGE NUMBER OF SHARES (in thousands)	18,205	17,137

Consolidated Statements of Cash Flows

Years ended September 30 (thousands of U.S. dollars)	1999	1998
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income	$ 4,302	$ 20,950
Add (deduct) items not affecting cash:		
Amortization of intangibles	23,351	12,909
Write-off of intangibles	1,819	4,330
Gain on sale of investment in subsidiary (Note 2)	(5,204)	–
Deferred income taxes	(3,996)	1,796
Depreciation	5,044	2,544
	25,316	42,529
Changes in non-cash working capital		
Accounts receivable	(8,957)	(3,799)
Unbilled receivables	(929)	–
Inventory	475	36
Income taxes recoverable	(5,002)	–
Prepaid expenses and other assets	1,579	(984)
Other receivables	(1,284)	(540)
Accounts payable	(1,224)	2,029
Accrued liabilities	(9,745)	(104)
Deferred revenue	6,878	3,331
Income taxes payable	–	(8,303)
	7,107	34,195
INVESTING		
Short-term investments purchased	–	(173,181)
Short-term investments matured	110,300	160,097
Acquisition of subsidiaries (Note 2)	(184,885)	(8,251)
Sale of investment in subsidiary (Note 2)	12,314	–
Additions to fixed assets	(3,714)	(7,558)
	(65,985)	(28,893)
FINANCING		
Long-term debt issued	65,500	–
Long-term debt repaid	(12,652)	–
Repayment of obligations under capital leases	(432)	–
Other long-term liabilities	(186)	–
Shares repurchased	(3,527)	(6,354)
Issuance of shares	505	3,960
	49,208	(2,394)
INCREASE (DECREASE) IN CASH	(9,670)	2,908
CASH, BEGINNING OF YEAR	27,817	24,909
CASH, END OF YEAR	$ 18,147	$ 27,817
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	$ 1,616	$ 16
Income taxes paid	22,684	26,606

Notes to the Consolidated Financial Statements

September 30, 1999 and 1998 (amounts in thousands of U.S. dollars, except share data)

1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Description of the business

Hummingbird Communications Ltd. (the "Company") is a developer of enterprise software solutions that provide access to all business-critical information and resources.

b) Significant accounting policies

i) Generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These principles conform, in all material respects applicable to the Company, with accounting principles generally accepted in the United States, except as described in Note 16.

ii) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary companies. The purchase method has been used to account for acquisitions, and the results of operations of subsidiaries are included from the effective dates of their respective acquisitions.

iii) Revenue recognition

The Company recognizes revenue from the sale of product and software licenses when goods are shipped based on purchase orders, provided that no significant vendor obligations remain and collection of the resulting receivable is deemed probable by management. Revenue from post-contract customer support is recognized ratably over the period that the customer support services are provided, which is generally one year. Revenues from consulting, training and other services are recognized as services are performed. Revenues from the sale of computer hardware are recognized upon shipment. Deferred revenue represents unearned income associated with support agreements, software license revenue where significant vendor obligations remain and any payments received in advance of revenue recognition.

iv) Unbilled receivables

Unbilled receivables represent amounts receivable for hardware and software shipped to customers which will become billable in accordance with contractual payment terms.

v) Cash

Cash includes cash equivalents, which are investments having an original term to maturity of less than or equal to 90 days.

vi) Short-term investments

Short-term investments are investments having an original term to maturity of greater than 90 days. Short-term investments are carried at cost, which approximates fair market value, are normally held to maturity, and comprise commercial paper, corporate debt and money market funds.

1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Significant accounting policies *(continued)*

vii) Fixed assets

Fixed assets are stated at cost. Depreciation is provided as follows:

Buildings	4% declining balance
Laboratory equipment	5 years straight-line
Furniture and fixtures	5 years straight-line
Leasehold improvements	5 years straight-line

The cost of repairs and maintenance is charged to expense as incurred. Renewals and betterments are capitalized. Upon retirement or sale of an asset, its cost and related accumulated depreciation or amortization are removed from the accounts and any gain or loss is recorded in income or expense. The Company continually reviews fixed assets to determine that the carrying values have not been impaired.

viii) Inventory

Inventory is stated at the lower of cost or net realizable value as determined by the first-in first-out method.

ix) Intangibles

Intangibles include goodwill and acquired technology and other items which are stated at their assigned value. Amortization is provided on the straight-line basis over periods of three to ten years. The carrying value of intangibles is reviewed regularly for recoverability based on the future operating income generated by the related assets. Where future recoverability is not assured, the intangibles are written down to their net recoverable value.

x) Foreign currency translation

Self-sustaining operations translate assets and liabilities at the exchange rates in effect at the balance sheet date. Revenues and expenses, including gains and losses on foreign exchange transactions, are translated at average rates for the period. The unrealized translation gains and losses on the Company's net investment in these operations are accumulated in a separate component of shareholders' equity, described in the consolidated balance sheets as cumulative translation adjustment.

Integrated subsidiaries translate monetary assets and liabilities at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period. Translation exchange gains or losses of integrated subsidiaries are reflected in net earnings.

xi) Income taxes

The Company follows the deferral method of income tax allocation. Deferred income taxes result from claiming deductions for income tax purposes in amounts which differ from those charged in the accounts.

xii) Lease inducements

Lease inducements represent leasehold improvements paid for by the landlord and the value of rent-free periods. Lease inducements are amortized on a straight-line basis over the periods of the leases, and the amortization is recorded as a reduction of rent expenses.

1. DESCRIPTION OF THE BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Significant accounting policies *(continued)*

xiii) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management has made estimates for the recoverability of goodwill and acquired research and development, and restructuring and integration costs related to the acquisitions of PC DOCS Group International Inc. ("PC DOCS") and Leonard's Logic SA. Actual results could differ from those estimates.

xiv) Product development costs

The Company expenses research costs when they are incurred. Software development costs are expensed as incurred unless they meet the criteria for deferral and amortization required by generally accepted accounting principles. Development costs incurred prior to the establishment of technological feasibility are expensed, as they do not meet the criteria. Capitalized costs are amortized on a straight-line basis over the remaining economic life of the related product, not exceeding two years. The Company reassesses the relevant criteria for deferral and amortization at each reporting date.

xv) Other assets

This amount is comprised of payments made to third parties for the licensing of technology used directly or indirectly in the development process. The Company amortizes these amounts over periods ranging from one to two years on a straight-line basis.

2. ACQUISITIONS AND DIVESTITURES

During the year, the Company completed three acquisitions. On June 23, 1999, the Company acquired 92.64% of the issued and outstanding shares of PC DOCS. The Company acquired the remaining 7.36% of the shares of PC DOCS and settled outstanding employees' and officers' share options by September 10, 1999. On March 11, 1999, the Company acquired 100% of the issued and outstanding shares of Leonard's Logic SA. PC DOCS and Leonard's Logic SA are involved in the development of software and solutions. On March 10, 1999, the Company acquired all rights to Financial Frameworks software technology and all intellectual property related thereto from Context, Inc.

On January 5, 1998, the Company completed the acquisition of Andyne Computing Limited, a software development company. Also during 1998, the Company acquired all of the issued and outstanding shares of Datenrevision GmbH, a computer software consulting firm, and acquired further interests in Andyne Australia and Andyne UK Limited (formerly Soft Toolrack Limited) to bring ownership to 100%.

The acquisitions have been accounted for by the purchase method of accounting, and accordingly, the results of operations of the acquired entities have been included in the consolidated financial statements from the respective dates of acquisition.

2. ACQUISITIONS AND DIVESTITURES *(continued)*

	1999	1998
Net assets acquired, at assigned value:		
Current assets	$ 66,839	$ 8,006
Liabilities	(66,017)	(10,726)
Intangibles		
Workforce	16,680	–
Trademarks	21,500	–
Prepaid royalty	3,700	–
Acquired technology	83,750	28,128
Goodwill	58,287	28,512
Other non-current assets	26,768	2,886
	$ 211,507	$ 56,806

	1999	1998
Consideration given:		
Cash	$ 184,885	$ 8,251
Transaction and integration costs	26,622	–
Common shares (Note 9)	–	48,555
Total	$ 211,507	$ 56,806

In conjunction with the acquisition of PC DOCS, the Company entered into an agreement to sell CMS/Data Corporation ("CMS/Data"), a wholly-owned subsidiary of PC DOCS, to a third party for gross proceeds of $30,000, subject to a purchase price adjustment. The transaction became effective on September 30, 1999 and the proceeds are included in Other Receivables. The Company has appropriately not included any results of operations from CMS/Data.

Effective August 31, 1999, the Company sold its investment in Datenrevision GmbH, a wholly-owned subsidiary, to a third party. On the closing of the transaction, the Company received proceeds of $12,314, resulting in a pre-tax gain of $5,204.

Subsequent to year end, the Company amalgamated with PC DOCS, PC DOCS Group Canada Inc. and Fulcrum Technologies Inc., wholly-owned subsidiaries.

3. OTHER RECEIVABLES

In addition to the proceeds receivable from the sale of CMS/Data (Note 2), other receivables at September 30, 1999 and 1998 include loans to employees to purchase common shares totaling $139. The loans are secured by shares of the Company, are non-interest bearing and are repayable on demand.

4. FIXED ASSETS

	1999			1998		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land and buildings	$ 6,104	$ 332	$ 5,772	$ 5,835	$ 122	$ 5,713
Laboratory equipment	23,712	13,973	9,739	11,331	6,328	5,003
Furniture and fixtures	4,212	2,148	2,064	2,790	974	1,816
Leasehold improvements	1,842	615	1,227	541	153	388
	$ 35,870	$ 17,068	$ 18,802	$ 20,497	$ 7,577	$ 12,920

5. INTANGIBLES

	1999			1998		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Goodwill	$ 88,939	$ 19,461	$ 69,478	$ 40,502	$ 12,169	$ 28,333
Acquired technology	118,034	19,498	98,536	34,284	7,810	26,474
Other intangibles	41,880	1,458	40,422	–	–	–
	$ 248,853	$ 40,417	$ 208,436	$ 74,786	$ 19,979	$ 54,807

In accordance with its accounting policy on intangibles, the Company regularly reviews the carrying value of intangibles to determine recoverability. During the current year, the Company wrote off goodwill related to the acquisition of Andyne UK Limited, a wholly-owned subsidiary, in the amount of $1,819. During 1998, the Company wrote off the acquired technology related to Common Ground Software Inc. in the amount of $4,330 (Note 11).

6. LONG-TERM DEBT

		1999		1998
Bank loan				
Credit Facility A	$	52,000	$	–
Non-revolving term, to a maximum of US$70,000, secured, due December 17, 2000				
Credit Facility B		13,500		–
Revolving term, to a maximum of US$30,000, secured, due December 17, 2000				
Other loans		540		–
		66,040		–
Less: Long-term debt due within one year		30,279		–
	$	35,761	$	–

During the year, the Company entered into a Credit Agreement with a financial institution that provides for two credit facilities. Each facility bears interest at prime plus 1.25% per annum on prime rate advances, base rate plus 1.25% per annum on base rate advances, and LIBOR rate plus 2% per annum on LIBOR advances. The two facilities are secured by a first-ranking $150,000 fixed and floating charge debenture, general assignment of book debts, general security agreements, a first-ranking specific security on intellectual property rights and a first-ranking pledge of PC DOCS shares. Both facilities mature December 17, 2000.

Credit Facility A is solely to finance the acquisition of PC DOCS, and any unutilized portion as of November 1, 1999 will be canceled. As of November 1, 1999, the unutilized portion was $48,000. There are no principal repayments until maturity, except for asset disposition proceeds and proceeds of securities issuances. Credit Facility B has no principal repayments until maturity, except for asset disposition proceeds and proceeds of securities issuances after they have been applied firstly to Credit Facility A.

The Company also has other loans which bear interest at rates between 7% and 7.5% and are due by September 30, 2001.

Long-term debt repayments are scheduled as follows:

2000	$	30,279
2001		35,761

During the year ended September 30, 1999, interest on long-term debt was $1,440.

7. CAPITAL LEASE OBLIGATIONS

As at September 30, 1999, capital lease obligations are secured by specific computer, furniture and telephone equipment, and bear interest at imputed rates of between 7% and 10% per annum.

The following is a schedule of the minimum lease payments:

2000	$	2,771
2001		1,371
Total minimum lease payments		4,142
Amount representing interest		239
		3,903
Less: Current portion		2,556
	$	1,347

During the year ended September 30, 1999, interest on capital lease obligations was $176.

8. OTHER LONG-TERM LIABILITIES

As at September 30, 1999, the unamortized balance of lease inducements was $793 and the deferred gain on the sale and subsequent lease-back of assets under capital lease was $477.

9. SHARE CAPITAL

Authorized

Unlimited number of common shares
Unlimited number of preferred shares issuable in series and whose attributes shall be fixed by the Board of Directors prior to issue

Issued and Outstanding

	Common Shares		
	Issued		$
Balance, October 1, 1997	14,104,025	$	74,891
Issuance, January 5, 1998 (Note 2)	1,520,406		48,555
Shares repurchased	(308,300)		(2,301)
Stock options exercised during fiscal 1998 under the ESOP	191,809		3,960
Balance, September 30, 1998	15,507,940		125,105
Shares repurchased	(178,900)		(1,349)
Stock options exercised during fiscal 1999 under the ESOP	42,596		505
Balance, September 30, 1999	15,371,636	$	124,261

9. SHARE CAPITAL *(continued)*

Share Repurchase Program

On August 17, 1998, the Company announced an open market share repurchase program for up to 1,000,000 common shares at the prevailing market price on the Toronto Stock Exchange. This program was in effect until August 18, 1999. During the year ended September 30, 1999, the Company repurchased 178,900 shares at an average price of $19.71 per share for a total consideration of $3,527, which has been applied to reduce share capital and retained earnings by $1,349 and $2,178, respectively. During the year ended September 30, 1998, the Company had repurchased 308,300 shares at an average price of $20.61 per share for a total consideration of $6,354, which was applied to reduce share capital and retained earnings by $2,301 and $4,053, respectively.

Employee Stock Option Plan

The Company's current stock option plan, the 1996 Employee Stock Option Plan ("1996 ESOP"), has been in effect since January 1996 and was approved by the shareholders at the Company's annual and special meeting on March 19, 1996. This plan replaced the 1993 Employee Stock Option Plan, which had been in effect since July 1993. Under the 1996 ESOP, the Company had reserved 2,000,000 common shares for issuance. At the fiscal 1996 annual and special meeting of the shareholders held on March 25, 1997, the number of shares reserved by the Company for the 1996 ESOP was amended to 3,000,000 common shares. At the 1998 annual and special meeting of shareholders held on May 14, 1999, the number of shares reserved for issuance under the 1996 ESOP was further amended to 3,500,000 common shares.

The following stock options have been granted and remain outstanding at September 30, 1999:

Granted	Number of Shares	Weighted Average Exercise Price	Expiry Date
1994	10,432	$ 12.14	August 11, 2000
1995	377,651	25.21	September 1, 2001
1996	183,883	37.87	September 3, 2002
1997	328,438	30.29	September 3, 2003
1998	597,183	29.34	September 3, 2004
1999	1,317,450	16.49	September 7, 2005
	2,815,037	$ 23.38	

One third of such options become exercisable on each of the three anniversaries after the respective date of grant. Options are exercisable for six years after their date of grant.

10. INCOME TAXES

The Company's income tax expense varies from tax computed using statutory rates due to the following:

	1999	1998
Income before income taxes	$ 20,407	$ 48,879
Combined basic federal and provincial income taxes	$ 9,105	$ 21,810
Increase (decrease) resulting from:		
Foreign rate differences	(2,154)	–
Amortization of tangibles, net of disposition on sale of subsidiary	8,892	4,800
Write-off of intangibles	812	1,932
Non-deductible amounts	458	1,618
Utilization of loss carryforwards	–	(1,796)
Other	(1,008)	(435)
	$ 16,105	$ 27,929

As at September 30, 1999, the Company had tax loss carryforwards of approximately $26,856, of which $7,000 have not been recognized in the financial statements, available to reduce future years' income for tax purposes. These losses expire as follows:

Expiry	
2002	$ 2,347
2003	9,095
2004	2,297
2005	5,123
2006	2,553
2011	2,500
2013	2,941
	$ 26,856

11. RESTRUCTURING CHARGES

In conjunction with the Company's recent acquisitions and particularly the PC DOCS acquisition, management undertook a thorough review of all aspects of the Company and its operations. In its review, management considered the changing market and industry trends to Internet-based products, synergies to be attained from PC DOCS combining with existing operations, and costs associated with the elimination of organizational and facility duplication.

This review determined significant planned restructuring, including integration of operations, resulting in reductions to overhead, closures of duplicate offices, and refocusing future efforts on integration of products and operations.

11. RESTRUCTURING CHARGES *(continued)*

As a result of this review, management made a charge of $8,750 to income in the year ended September 30, 1999 which includes closure of offices, reduction in personnel, and charges to the carrying values of assets and expenses relating to the those offices and personnel.

In 1998, restructuring charges of $1,352 were expensed and comprised the costs associated with the discontinuance of the Common Ground product line.

12. EARNINGS PER COMMON SHARE

Earnings per share have been calculated on the basis of earnings divided by the weighted average number of common shares. Fully diluted earnings per share reflect the potentially dilutive effects of the common share options outstanding at the end of the year.

13. COMMITMENTS AND CONTINGENCIES

The Company has entered into agreements related to the operating leases for premises, automobiles and equipment and has made commitments for charitable donations requiring payments as follows:

2000	$ 5,899
2001	3,816
2002	2,647
2003	1,754
2004	1,730
Thereafter	4,507
	$ 20,353

The Company is subject to various claims and proceedings which have been instituted against it during the normal course of business. Management believes that the disposition of the matters pending or asserted, for which provision has not been made, is expected not to have a material adverse effect on the financial position of the Company or its results of operations.

14. FINANCIAL INSTRUMENTS

Off-Balance Sheet Risk

The Company's objective with respect to foreign currency exposure management is to neutralize the impact of foreign currency exchange movements. To achieve this objective, the Company enters into foreign exchange forward contracts to hedge foreign currency receivables and payables. It is the Company's policy to enter into foreign exchange contracts only with major Canadian chartered banks and major international banks, and therefore the Company does not anticipate non-performance by these counterparts. As at September 30, 1999, the Company was not involved in any foreign exchange contracts.

Concentration of Credit Risk

Surplus cash is invested according to the Company's investment policy, which states the primary objective as the preservation of capital. Investment credit risk is managed by limitations on the grade of securities, diversification of issuers and limitations on terms to maturity. Cash equivalents at September 30, 1998 included corporate debt of $10,019 which represented the Company's primary investment credit risk. No short-term investments were held at September 30, 1999.

The Company markets and supports its products internationally, both directly and through resellers, and is not dependent on any single customer, group of customers or supplier. Credit risk related to the Company's trade receivables is minimized due to its large customer base, geographical distribution and diversification of operations.

14. FINANCIAL INSTRUMENTS *(continued)*

Fair Value of Financial Instruments

The carrying values of the Company's financial instruments, including cash, cash equivalents, short-term investments, accounts receivable, unbilled receivables, long-term debt, capital lease obligations, other liabilities, accounts payable and accruals approximate fair value due to their short-term nature.

15. GEOGRAPHIC SEGMENT INFORMATION

The Company operates and manages its business in one industry segment – the computer software development industry.

Sales by Country of Origin

September 30, 1999

	U.S.	Canada	Europe	Eliminations	Consolidated
Sales	$ 41,675	$ 109,883	$ 54,731	$ (40,359)	$ 165,930
Identifiable assets	$ 52,754	$ 135,531	$ 46,873	$ (59,748)	$ 175,410
Intangibles					208,436
Total assets					$ 383,846

September 30, 1998

	U.S.	Canada	Europe	Eliminations	Consolidated
Sales	$ 20,940	$ 106,833	$ 18,411	$ (20,131)	$ 126,053
Identifiable assets	$ 7,469	$ 171,376	$ 11,062	$ –	$ 189,907
Intangibles					54,807
Total assets					$ 244,714

Geographical distribution of sales by customer location was approximately as follows:

	1999	1998
U.S.	$ 88,652	$ 73,487
Europe	63,749	42,873
Canada	5,976	4,675
Others	7,553	5,018
Total	$ 165,930	$ 126,053

16. UNITED STATES ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which conform in all material respects applicable to the Company with those in the United States ("U.S. GAAP") during the periods presented except with respect to the following:

a) For Canadian GAAP, the acquisition of Andyne was accounted for by the purchase method. Under U.S. GAAP, it was accounted for using the pooling of interests method. For U.S. GAAP, the Company's consolidated financial statements for all previous periods have been restated to include the financial statements of Andyne. Accordingly, all amounts for prior periods have been restated.

b) Under Canadian GAAP, there is no requirement to record compensation on the issue of stock options to employees, consultants or directors. Under U.S. GAAP, compensation would be accrued at the date of granting of the options, calculated as the difference between the market price and exercise price at the date of the grant. This amount accrues over the periods of required service. For the years ended September 30, 1999 and 1998, compensation related to stock options would be increased by and net income would be decreased by $141 and $723, respectively. Additional paid-in capital, a component of shareholders' equity, would be increased by $3,510 at September 30, 1999 and $3,369 at September 30, 1998.

c) In accordance with Canadian GAAP, it is the Company's policy to capitalize and amortize acquired research and development. Under U.S. GAAP, acquired in-process research and development is expensed net of the benefit of tax loss carryforwards. Therefore, for U.S. GAAP purposes, for the years ended September 30, 1999 and 1998, acquired in-process research and development expensed would increase by and net income would decrease by $14,020 and nil, respectively.

d) The following additional disclosures are required in the consolidated financial statements under U.S. GAAP:

i) Allowances for doubtful accounts on accounts receivable as presented in the Canadian GAAP consolidated balance sheets as at September 30, 1999 and 1998 were $2,728 and $954, respectively.

ii) Foreign exchange gains and losses for the years ended September 30, 1999 and 1998 were a gain of $597 and a loss of $630, respectively.

e) The following table reconciles consolidated net income for the periods reported in the accompanying consolidated statements of income with that which would have been reported had the consolidated financial statements been presented in accordance with U.S. GAAP:

		1999		1998
Net income	$	4,302	$	20,950
Adjustments:				
Amortization and write-off of intangibles		(3,683)		12,279
Effects of Andyne pooling		–		(5,907)
Additional compensation re: ESOP		(141)		(723)
Income taxes		(199)		–
Net income in conformity with U.S. GAAP	$	279	$	26,599
Basic earnings per common share (U.S. GAAP)	$	0.02	$	1.70
Diluted earnings per common share (U.S. GAAP)	$	0.02	$	1.68

Basic earnings per common share are determined using the weighted average number of shares outstanding during the periods. Diluted earnings per common share reflect the dilutive effects of the common share options outstanding at the end of the periods.

16. UNITED STATES ACCOUNTING PRINCIPLES *(continued)*

f) Under U.S. GAAP, the amount of share purchase loans is deducted from shareholders' equity. As at September 30, 1999 and 1998, the amount of share purchase loans outstanding was $139.

g) In accordance with Canadian GAAP, the Company translated all historical figures, previously reported in Canadian dollars to September 30, 1996, to U.S. dollars at the rate in effect on September 30, 1996. Under U.S. GAAP, the translation method requires that all monetary amounts on the balance sheet be translated at the rate in effect on the balance sheet date, all non-monetary items at historic rates and all income statement items at the rate in effect on the date of the respective transaction. This resulted in a reduction of shareholders' equity due to cumulative translation adjustments of $930.

h) The following table indicates the items in the balance sheet that would be affected had the financial statements been prepared in accordance with U.S. GAAP. The amounts would be as follows:

		1999		1998
Other receivables	$	30,694	$	811
Intangibles		210,444		12,430
Deferred income tax assets		–		1,921
Deferred income tax liabilities		24,812		–
Share capital		86,791		87,293
Additional paid-in capital		3,510		3,369
Accumulated other comprehensive loss (cumulative translation adjustments)		(930)		(1,259)
Retained earnings		89,590		91,831

i) **Supplementary Income Statement Information**

		1999		1998
Advertising media costs	$	9,621	$	7,798
Taxes, other than payroll and income taxes		1,143		385

17. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

18. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified in order to conform to the presentation adopted in the current year.

19. SUBSEQUENT EVENT

On December 13, 1999, the Company agreed to issue 1,500,000 common shares at Cdn. $45.00 per share to certain security dealers ("Underwriters"). In addition, the Underwriters have the option to acquire up to an aggregate of 500,000 additional common shares.

Corporate Directory

Board of Directors

Fred Sorkin(1)(2)
Chairman of the Board

John T. McLennan(1)(2)
President, Jenmark Consulting (Vice Chairman)

Alan Barry Litwin
Corporate Director

Andrew J. Malik(1)(2)
Managing Director, Lehman Brothers Inc.

Harold Hughes
Chairman, Pandesic

Inder P.S. Duggal
Corporate Director

(1) Members of the Audit Committee
(2) Members of the Compensation Committee

Executive Officers

Chairman of the Board & Chief Executive Officer
Fred Sorkin

President & Secretary
Alan Barry Litwin

Chief Financial Officer & Chief Controller
Inder P.S. Duggal

Senior Vice President, Sales & Marketing
Hossam Abou Zeid

Senior Vice President, Sales
Julius Da Costa

Senior Vice President
Fabrizio Mignini

Senior Vice President, Research & Development
Gwyn Fisher

Senior Vice President
Howard Wallace

General Manager, CompInfo
Bob Berkow

Executive Officers *(continued)*

Vice Presidents
Seroja Beitdashtoo
Eugene Cherny
Chris Degnan
Rodney Desmeules
Elias Diamantopoulos
Lynne Hardwick
Bill Martin
Trung Nguyen
Michael O'Connor Clarke
Rodney Piette
Lisa Reinhold
Martha Turner
Norm Vokey
Fred Whiteside

Registrars and Transfer Agents

CIBC Mellon Trust Company

P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9

Chase Mellon Shareholder Services L.L.C.

120 Broadway
13th Floor
New York
NY 10271

Auditors

Deloitte & Touche LLP
Chartered Accountants

5140 Yonge Street
Suite 1700
Toronto, Ontario
M2N 6L7

Legal Counsel

Fasken Martineau DuMoulin LLP
Barristers and Solicitors

Toronto Dominion Bank Tower
P.O. Box 20
Toronto-Dominion Centre
Toronto, Ontario
M5K 1N6

Skadden, Arps, Slate, Meagher & Flom

Suite 1820, North Tower
P.O. Box 189
Royal Bank Plaza
Toronto, Ontario
M5J 2J4

Bankers

Scotiabank

44 King Street West
Toronto, Ontario
M5H 1H1

Canadian Imperial Bank of Commerce

7125 Woodbine Avenue
Markham, Ontario
L3R 1A3

Investor Relations

Send inquiries to:

Hummingbird Communications Ltd.
1 Sparks Avenue
Toronto, Ontario
M2H 2W1

Tel: (416) 496-2200
Fax: (416) 496-2207

investors@hummingbird.com

Share Listing

Nasdaq National Market System – ("HUMC")

Toronto Stock Exchange – ("HUM")

Annual Meeting

The Annual Meeting of Shareholders will be held on Thursday, March 23, 2000 at 10:00 a.m. at the Hummingbird Centre for the Performing Arts, Toronto, Ontario, Canada.

HUMMINGBIRD COMMUNICATIONS LTD.

Corporate Head Office
1 Sparks Avenue
Toronto, Ontario
M2H 2W1
Canada
Telephone: (416) 496-2200
Fax: (416) 496-2207

Other offices located in Australia, Belgium, Canada, France, Germany, Italy, Japan, Korea, Mexico, Singapore, Sweden, Switzerland, The Netherlands, U.K., U.S.

E-mail
investors@hummingbird.com

Web Address
www.hummingbird.com